Town Hall, Castle Circus,
Torquay, Devon TQ1 3DR
Main Switchboard (01803) 201201
Fax (01803) 207006 DX 59006

Wednesday, 5 February 2020

Adjourned Meeting of the Council

Dear Member

I am pleased to invite you to attend an adjourned meeting of Torbay Council which will be held in **Rosetor Room, Riviera International Conference Centre, Chestnut Avenue, Torquay, TQ2 5LZ** on **Thursday, 13 February 2020** commencing at **5.30 pm**

The items to be discussed at this meeting are attached.

Yours sincerely,

Steve Parrock
Chief Executive

(All members are summoned to attend the meeting of the Council in accordance with the requirements of the Local Government Act 1972 and Standing Orders A5.)

A prosperous and healthy Torbay

Download this agenda via the free modern.gov app on your iPad, Android Device or Blackberry Playbook. For information relating to this meeting or to request a copy in another format or language please contact:

June Gurry, Town Hall, Castle Circus, Torquay, TQ1 3DR

Email: governance.support@torbay.gov.uk - www.torbay.gov.uk

Adjourned Meeting of the Council
Agenda

1. **Apologies for absence**

2. **Declarations of interests**

   Having declared their non pecuniary interest members may remain in the meeting and speak and, vote on the matter in question. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.

   Where a Member has a disclosable pecuniary interest he/she must leave the meeting during consideration of the item. However, the Member may remain in the meeting to make representations, answer questions or give evidence if the public have a right to do so, but having done so the Member must then immediately leave the meeting, may not vote and must not improperly seek to influence the outcome of the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.

   (**Please Note:** If Members and Officers wish to seek advice on any potential interests they may have, they should contact Governance Support or Legal Services prior to the meeting.)

3. **Revenue Budget 2020/2021** (Pages 4 - 56)

   To consider the recommendations of the Cabinet on the Revenue Budget proposals for 2020/2021 and the Chief Finance Officer's Report. Circulated separately to this report are the following documents:

   - Cabinet response to consultation
   - Revenue Budget Digest 2020/2021
   - Proposals for service change, income generation and savings 2020/2021 (including Equality Impact Assessments)
   - Fees and Charges 2020/2021
   - Review of Reserves 2020/2021

   The Revenue Budget Digest 2020/2021, Proposals for service change, income generation and savings 2020/2021 (including Equality Impact Assessments) and Fees and Charges 2020/2021 can be found at: www.torbay.gov.uk/council/finance/budget/budget-202021/

4. **Capital Plan Budget 2020/2021** (Pages 57 - 62)

   To consider the recommendations of the Cabinet on the Capital Plan Budget proposals for 2020/2021. This report includes:

   - Capital Plan Update – Quarter 3 2019/2020
   - Capital Strategy

Treasury Management Strategy 2020/2021 (incorporating the Annual Investment Strategy 2020/2021 and the Minimum Revenue Provision Policy 2020/2021 (Pages 63 - 95)

To consider the submitted report on the above.

Note

An audio recording of this meeting will normally be available at www.torbay.gov.uk within 48 hours.

Meeting: Cabinet **Date:** 4 February 2020

Council **Date:** 6 February 2020

Wards Affected: All

Report Title: Revenue Budget 2020/21

Is the decision a key decision? Yes

When does the decision need to be implemented? Immediately

Cabinet Lead Contact Details: Darren Cowell, Cabinet Lead for Finance, darren.cowell@torbay.gov.uk

Supporting Officer Contact Details: Martin Phillips, Head of Finance, martin.phillips@torbay.gov.uk

---

1. Proposal and Introduction

1.1 The Council has a statutory responsibility to set a budget each year. By setting and approving the net revenue budget for 2020/21, the budget allocations proposed and the expenditure undertaken will be used to achieve a range of objectives across a number of plans within the Council. This will meet the ambitions expressed within the Corporate Plan and other related strategies.

1.2 In accordance with the Council's Constitution, Members are asked to either confirm their agreement to the recommended budget or put forward objections, and then any amendments for consideration at future meetings.

1.3 Within the budget setting process, the Chief Finance Officer must statutorily provide advice as to the robustness of the budget and this report sets out this opinion.

2. Reason for Proposal

2.1 The Council has a statutory responsibility to set a revenue budget each year.

3. Partnership's Budget Proposal

3.1 That the proposals identified for efficiencies, service change and income generation in 2020/21 be approved.

3.2 That the net revenue expenditure of £115.868m resulting in a Council Tax requirement of £72.328m for 2020/21 (a 3.99% increase in Council Tax, of which 2% is for Adult Social Care) be approved.

3.3 That the Dedicated Schools Grant be used in accordance with the Schools Financial Regulations and that the Chief Finance Officer be authorised to make amendments as required when the final figures are confirmed and this delegation is included in the next revision of the Council's constitution.

3.4 That the proposed Fees and Charges for 2020/21 be approved.

3.5 That, in accordance with the requirement of the Local Government Act 2003, the advice given by the Chief Finance Officer with respect to the robustness of the budget estimates and the adequacy of the Council's reserves (as set out in the report) be noted.

3.6 That it be noted that the Brixham Town Council precept of £0.336m for 2020/21 will be included as part of the Torbay Council budget for Council Tax setting purposes.

4. Background Information

4.1 The Partnership have published their Budget Proposals and these have been circulated to all Members of the Council. All Members have also been provided with copies of the supporting information which has been published alongside the Budget Proposals:

- Chief Financial Officer's Report
- Revenue Budget Digest 2020/21
- Fees and Charges 2020/21
- Proposals for service change, income generation and savings including Equality Impact Assessments
- Review of Reserves 2020/21
- Capital Strategy 2020/21
- Capital Budget 2020/21
- Quarter Three Budget Monitoring 2019/20

4.2 The budget has also been updated for any confirmed grant allocations received since the draft budget was issued. These include Discretionary Housing Fund (£625k), Flexible Housing Grant (£612k) and Rough Sleeping Grant (£620k).

4.3 In relation to the Dedicated Schools Grant, the Grant will be used in accordance with the Schools Financial Regulations and that the Chief Finance Officer be authorised to make amendments as required when the final figures are confirmed and this delegation is included in the next revision of the Council's constitution.

4.4 Within the Higher Needs Block of this Grant it is projected that there will be a deficit on this Block in 2020/21 of £2m. This in year deficit will be accounted for as an increase in the cumulative deficit on this ring fenced grant held by the Council as a negative reserve pending future funding being identified. Further information on the Higher Needs Block is attached as an appendix to this report.

5. Robustness of the budget estimates

5.1 Key to budget setting is the robustness of the budget proposals, which is linked to both service demands and the risks associated with those services. A number of assumptions have been made in the development of the budget for 2020/21 in order to mitigate against the risks. A number of specific risks and their mitigation are shown below:

Risk	Risk Rating	Mitigation
Inability to deliver a balanced budget over the next three financial years	High	Annual Planning cycle for budgeting supported by the transformation programme
Identified budget reductions for 2020/21 are not achieved	Medium	Monthly monitoring of current year financial position by Senior Leadership Team including a "savings tracker". Contingency budget in 2020/21 revenue budget. Directors, Assistant Directors and all managers have a responsibility to ensure they maintain spend within their approved budget allocation. The Council also has in place a series of regular revenue and capital monitoring reports, which are presented to the Overview and Scrutiny Board and the Council which review the budget on a quarterly basis throughout the financial year, which mitigates against the risk of inadequate financial control.
Overspend against the proposed 2020/21 Children's Services budget	Medium	The Interim Director of Children's Services (DCS) has a service improvement plan and a sufficiency strategy with a number of work streams that has been recently established and being implemented, supported by a range of monitoring and performance arrangements. 20/21 Childrens' Services Budget re based to current spend levels - £7.0m increase plus a further £2.8m for investment in the service.
Overspend against the proposed 2020/21 Adult Social Care budget	Low	Agreement in place in which Council pays a fixed payment with no exposure to any over or under spends.
Volatility of NNDR Income	Medium	Provision for appeals and non-collection included in 2020/21 NNDR income estimate.
Insufficient income generated	Low	Annual cycle for budgeting supported by the transformation programme. Prudent view taken of new income streams in 2020/21 and a contingency held.
Insufficient investment fund income	Medium	Prudent view taken of potential new income streams in 2020/21. Cabinet continues to review investment opportunities.

Risk	Risk Rating	Mitigation
Insufficient reserve levels as a result of a significant budget variance or unforeseen event.	Medium	Review of Reserves report presented to the Council and £4.6m maintained in the General Fund balance and £3m target balance held in CSR Reserve. 20/21 budget includes a £0.5m increase to the CSR Reserve.
Exposure to changes in interest rates	Low	Treasury Management Strategy to be approved by the Council. All borrowing currently on fixed rate deals.
Inflationary pressures	Low	Budget build has included estimates of inflation where applicable. Pay award and impact of living wage not finalised yet however contingency held.
Income linked to major prudential borrowing schemes not achieved at forecast levels.	Medium	Approval by Council supported by a detailed business case. Income streams reviewed as part of budget monitoring Mitigation in schemes, such as a “pre let” required.
Insufficient capacity to deliver the Transformation Programme	Low	Provision in 2020/21 budget for £0.5m for transformation.

5.2 In accordance with the requirement of the Local Government Act 2003, the Chief Financial Officer must report to the Council on “the robustness of the estimates made for the purposes of the (budget) calculations” and the “adequacy of the proposed financial reserves”.

5.3 Taking account of the financial risks facing the Council and the mitigations outlined in paragraph 5.1 above, the Chief Financial Officer’s Statement is as follows:

> “I have taken into account information, risks and assurances from the Leader, the Cabinet and the Senior Leadership Team in forming my opinion. My opinion is that the 2020/21 budget is based on robust budget estimates.
>
> This opinion is supported by significant increased funding for childrens social care, the signed agreement for adult social care and the maintenance of Council reserves at a prudent level and the delivery of the transformation programme including the re provision of TOR2 services by SWISCO”.

5.4 In relation to reserve levels, the statement in the 2020/21 review of reserves report is:

6.0 Head of Finance Statement.

6.1 The Council is continuing to face financial challenges. I am satisfied that the Council's General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council's Financial Plans for 2020/21 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment.

6.2 This view has to be caveated that if the Council has unforeseen financial pressures, such as a significant in year budget overspend, then the Council's ability to fund these variations is limited. However this view can be mitigated if the following actions are undertaken:

a) The 2020/21 budget plans for an increase to the CSR reserve to achieve a minimum ongoing balance of £3m over the next two years.
b) That the Council continues to focus on childrens' social care as the biggest financial risk to the Council to deliver the identified improvements supported by a robust financial recovery plan and the sufficiency strategy
c) That a balanced revenue budget can be set for 2020/21 including a significant increase in the childrens' social care budget to reflect actual levels of cost and demand.
d) That the budgeted Investment Property surplus for 2020/21 is achieved.
e) That the Council continues to delivers its transformation programme at pace
f) That the Council recognises the option of using borrowing to fund capital plan to enable an increase to reserve levels by £3m if needed

6.3 At this stage with the significant uncertainty in relation to central government funding for 2021/22 I am currently unable to give any assurance in relation to 2021/22. I recommend, however, that the Council continues to be prudent in its use of reserves and plans for future risks and their mitigation. These to include:

a) Maintaining a balance on CSR reserve of £3m
b) Protection to current level of General Fund Reserve
c) No reserves used to balance 2020/21 or future year budgets
d) Specific material risks still mitigated for – such as insurance, NNDR volatility and investment fund
e) Regular updates and awareness of the risks identified in the Medium Term Resource Plan
f) That the Council continues to delivers its transformation programme at pace in medium term
g) Continued focus on reducing spend in children's' social care

7.0 Appendices

7.1 Appendix One - Higher Needs Block Briefing paper

Briefing Paper – Higher Needs Block

Context
The following paper aims to quantify the current pressure on the budgets for children and young people with Special Educational Needs and Disability (SEND) and the actions that are being taken at a local level to endeavour to address some of the rising pressures within this area.

The provision of Special Educational Needs support for children and young people within Torbay is funded through an allocated budget (Higher Needs Block) within the Dedicated Schools Grant (DSG). The gap between high needs funding and high needs expenditure has historically been dealt with by the movement of funds between the blocks within the DSG. This historic position masked the severity of the funding issues. The ability to move blocks at a local level was removed in 2018 and any movement of funds between blocks now requires a full public consultation and secretary of state approval. In 2018 the Schools Forum was given approval from the secretary of state to move funds, however this raised significant concerns given the impact on school budgets. However despite the transfer of funds and using all of the final reserves of School Forum, the net effect of increasing demand for SEND services and support has left the Local Area with a significant and increasing deficit. It is anticipated that the deficit by the end of March 2020 will be £3.625million. (Budget overview paper attached)

Pressures within the budget and ability to control spend
The rising costs of support for children and young people with SEND are driven both by the increasing numbers of children and young people requiring support and the increasing unit costs of that support. Torbay currently has 5% of Children and Young People with an Education Health and Care Plan. This is one of the highest rates in the country. Work is consistently taking place to review the threshold application for a plan, however external audit and testing through Tribunals has assured us that the application of threshold is consistent.

Torbay had a high percentage of children with a plan prior to the introduction of the new SEND code of practice in 2014. The introduction of the code was ambitious and far reaching and placed a significant expectation on the local area to provide additional services and educational opportunities that had not been available previously, most notably extending the entitlement to 0 – 25 years. The increased responsibility of providing for a new cohort of young people from the ages of 16 to 25 has significantly contributed to the growth in high needs spending.

Another factor that has significantly contributed to the increased demand for services is the demand and parental preference for specialist services. Mainstream schools are working hard to accommodate pupils, however the range of national policy decisions, coupled with an inspection framework built with an emphasis on attainment, has not created an environment in which schools are sufficiently incentivised or rewarded for being inclusive. Despite collective efforts the percentage of children and young people taught within specialist provision continues to grow. The Local Area is increasingly concerned that specialist local provision are working at full capacity, resulting on a reliance upon independent provisions that are high cost. It is anticipated that the new inspection framework introduced in September 2019, may lead to greater recognition and reward for an inclusive school culture, however there will be a limited number of children and young people currently taught in specialist provision that can return to mainstream education.

In addition to children with SEND, the Higher Needs Block also has to make provision for children and young people that are excluded from mainstream school. Permanent exclusions within Torbay remain stubbornly high and the correlation between disadvantage and exclusion is stark across both phases of education.

The impact of funding pressures across education, early help, statutory children's services and partner agencies is also leading to an additional pressure on schools and the provision available for young people. Pressure on school budgets to provide for changes in legislation, meet additional complex needs and continue services that have previously been commissioned by partner agencies place school budgets under further pressure. Mainstream schools are now less able to provide and support children and young people with SEND without additional funding which is taken from the Higher Needs Block. The cost of providing top up fees for individual pupils and bespoke packages has risen from £609k in 14/15 to £1.930m in 19/20.

The Schools Forum (the body responsible for the delivery of the DSG) have diligently taken action to try and reduce and mitigate the funding pressures. However despite these collective efforts the ability to manage within budget going forward has still not been achieved, until this position has been achieved the ability to address a cumulative deficit remains unknown.

Local Authorities with their School Forum have limited abilities to bring spend into line with budgets at a prompt pace. The key factors for consideration are:-

1. Around 85% of expenditure is tied into individual pupils and placements which cannot be released in the short term.
2. The legislation and the need to accommodate parental preference is being tested through Tribunals, these judgements predominately rule in favour of issuing a plan and subsequently expect a high level of provision to be given.
3. The limits on movements between blocks means that there is limited financial headroom available to invest in early intervention and prevention activity that can address the demand issues.
4. The constraints on capital allocations, mean that new provision and growth of provision is limited, leading to a reliance on independent options.

Local Authorities have the responsibility for maintaining high needs expenditure within budget, however there are no hard levers with which this can be actioned. The current system relies upon positive relationships, an ability to galvanise partners through a moral imperative and collective purpose. Although important mechanisms of change, they do not create a system of shared accountability and incentives.

Actions being taken at a Local Level

The Local Area has been working on a Higher Needs recovery plan for over 18 months. The plan has started to create a stronger sense of ownership across the education system, with parties beginning to recognise that individual decision making and requests for funding are contributing to the wider budget constraints. Schools Forum and the Higher Needs Recovery Group have a deeper understanding of the issues and have started to take action on key areas within the local area control. These include but are not limited to:-

- Supporting inclusion whilst holding schools to account
- Altering commissioning arrangements to provide more local area resource bases attached to schools and academies.
- Reviewing the funding allocations to each child and where possible reducing bespoke teaching arrangements.
- Creating new post 16 pathways
- Working with partners on shared packages and joint funding

Despite these actions and the continued emphasis on shared accountability the Local Areas ability to address the pressures remains limited.

Moving forward

To create a more sustainable model of providing high quality provision for children and young people with SEND, there needs to be greater emphasis and national direction on the alignment of policy and funding to meet needs. The School Forum and Local Authority need greater levers to corral partners to use the higher needs funding to best support all learners with SEND.

This could include:

- Clearer national expectations and guidance
- Greater flexibility and content of EHCP's to ensure schools are able to better determine how they deliver support.
- Providing ring fenced funding for support evidence based approaches to prevention that can be sustained and are not time limited.
- Correct the funding mechanisms that means it is cheaper to pass the cost of an EHCP or a permanent exclusion to the Higher Needs Budget rather than to make good quality school provision at an appropriate cost.
- Providing additional capital investment for specialist provisions
- Further mandating the sharing of costs between social care, education and health
- Consider the impact of league tables and inspections frameworks on incentivising inclusion.

Most importantly there needs to be recognition of the demands within the system and it is imperative that an additional and ongoing injection of funding needs to be provided to both deal with the deficit position and also to balance the budgets moving forward.

High Needs Recovery Group 9/12/19	16/17 Actual £	17/18 Actual £	18/19 Actual £	19/20 Forecast £	Cumulative Position £
High Needs Overspend	436,953	1,552,844	2,653,299	2,616,249	7,259,345
Transfer from Schools Block			(369,000)	(1,396,000)	(1,765,000)
Other DSG Overspend / (Underspend)	397,644	(570,247)	(119,232)	(199,344)	(491,179)
Total DSG Overspend	**834,597**	**982,597**	**2,165,067**	**1,020,905**	**5,003,166**

Special School Numbers	16/17 April Places	16/17 Sept Places	17/18 April Places	17/18 Sept Places	18/19 April Places	18/19 Sept Places	19/20 April Places	19/20 Sept Places
Combe Pafford	234	234	234	252	252	252	252	252
Mayfield & Chestnut	207	218	218	228	230	230	230	240
Brunel & Burton	106	96	96	96	106	106	106	106
Totals	**547**	**548**	**548**	**576**	**588**	**588**	**588**	**598**

Special School Funding	16/17 Funding £	17/18 Funding £	18/19 Funding £	19/20 Funding £	Increase since 16/17 £
Combe Pafford	3,132,023	3,305,506	3,478,021	3,482,193	350,170
Mayfield & Chestnut	4,111,366	4,334,771	4,583,031	4,761,039	649,673
Brunel & Burton	2,103,482	2,021,375	2,449,373	2,477,938	374,456
	9,346,871	**9,661,652**	**10,510,425**	**10,721,170**	**1,374,299**

EHCP Top-ups	16/17	17/18	18/19	19/20	Increase since 16/17
FTE's	334.00	353.17	358.83	400.83	66.83
Funding	926,000	1,234,000	1,508,000	1,930,000	1,004,000
Funding per FTE	2,772	3,494	4,203	4,815	2,043

Budget 2020/21

Chief Finance Officer's Report 2020/2021

(February 2020 Version)

Contents

This document can be made available in other languages, on tape, in Braille, large print and in other formats. For more information please contact 01803 207014.

Introduction

1. This report by the Council's Chief Finance Officer provides further information to support the Partnership's Budget Proposals for 2020/21. This an updated version since the report that supported the draft proposals in December 2019.

2. This report aims to provide further information and an overview of a number of key factors, including a number of "technical" finance issues, that have influenced the 2020/21 budget and raises issues for future financial years.

Budget Overview

3. These budget proposals are presented in the light of ongoing national political change. 2019/20 was the final year of a four year funding settlement. The, one year only, Spending Round announced by the Chancellor in September 2019 was very different compared to previous settlements and the Budget in March 2019. The budget proposals are based on the announcements made in the Spending Round which included; no reductions in local government funding, the continuation of 2019/20 grants into 2020/21, additional funding specifically for social care and the option of a 2% council tax precept to fund adult social care. The provisional Local Government Finance Settlement for 2020/21 was issued on the 20th December 2019 and was in line with expectations. The final Settlement is expected to be confirmed in mid-February however no changes are expected.

4. The modest increase in local government funding compared to the reductions in previous years is welcome. However put in context, the increase in grant funding in 2020/21 is likely to be less than the £4m reduction in the Council's revenue support grant that occurred in 2019/20. Overall, Torbay's Revenue Support Grant has reduced by £36m - from £42m in 2013/14 to £6m in 2019/20.

5. The Spending Round was for one year only therefore there is still considerable funding uncertainly from 2021/22 onwards. As a direct consequence of a one year announcement MHCLG has delayed both the introduction of a new funding formula and a revised NNDR system by a year to April 2021 as a three year Spending Review is expected for 2021/22 onwards. The Council has an estimated (three year) funding gap in 2021/22 to 2023/24 of over £16m.

6. Despite the increase in funding for 2020/21, there are rising costs and demand for services which continue to create significant financial challenges to the Council. Members need to consider the 2020/21 budget in the context of the future year budget reductions required.

7. The Council's financial planning for 2020/21 started in March 2019 and the Partnership's provisional budget proposals were published on 17 December 2019 enabling a period for consultation and scrutiny of the proposals. To achieve a balanced budget, the proposals for 2020/21 have required a range of reductions and income generation and a number of difficult choices for the Council.

8. The Partnership's budget proposals have sought to limit the impact of the reductions on the more vulnerable in society and, within Children's social care, the Council is recommended to invest significant additional funds for the safeguarding of children resulting in a real terms increase in budget for that service of over £9.8m to a total of £47m.

9. The Partnership's budget proposals also recognise financial pressures in a number of other areas. These include registration of electors and the coroner's service. The budget also reinstates the 2019/20 reduction to the Torbay Coast and Countryside Trust and in addition allocates funding for Torre Abbey phase three, reinstates a "holding" budget for Oldway Mansion, funding of a climate change officer and funding to support the housing strategy.

10. To support the difficult budget challenges facing the Council it is proposed by the Partnership that the Council increases its Council Tax requirement by an inflationary 1.99%.

11. The Partnership are also proposing to take the flexibility to raise Council tax specifically for Adult Social Care by 2% in 2020/21.

12. The Partnership's detailed budget proposals are available as part of the budget papers.

13. Members of the Overview and Scrutiny Board (through the Priorities and Resources Review Panel) have examined the proposals in detail and stakeholders and residents have had the opportunity to make representations on the proposals through the consultation. The Partnership has reviewed all of the responses received and the final budget proposals have be drawn up in the light of the responses.

14. This report supports the Revenue Budget 2020/21. Other budget related reports will be presented to Council in February 2020 which are relevant to the Council's overall financial position are:

    a. 2020/21 Capital Strategy and Capital Receipts Strategy
    b. 2020/21 Treasury Management Strategy, including Investment Policy and Minimum Revenue Provision Policy
    c. 2020/21 Review of Reserves

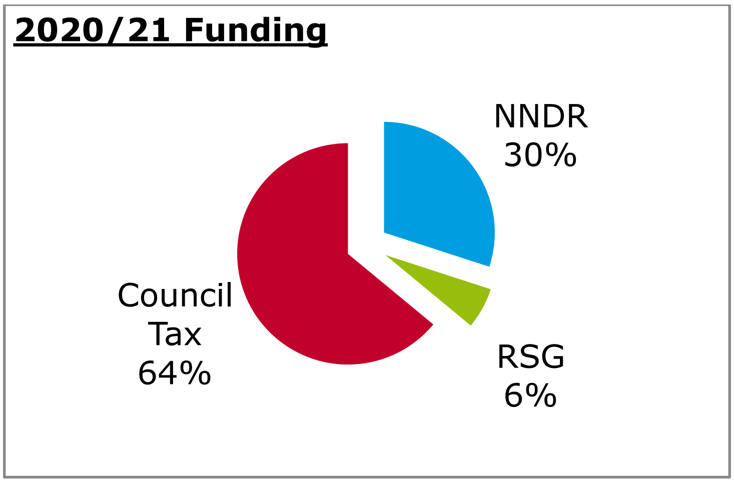
15. Also relevant are:

    d. Medium Term Resource Plan (on website)
    e. 2019/20 Revenue and Capital Budget Monitoring Report – Quarter Three

Budget Digest pages, Fees and Charges and budget proposals sheets are available separately along with any required equalities impact assessments.

17. A summary of the Council's 2020/21 budget is as follows:

Partnership's Budget Proposal:	2020/21	
	£'000	£'000
Net Revenue Expenditure	115.9	
Total Net Revenue Expenditure		**115.9**
Funded By:		
Business Rate Retention Scheme	34.2	
Revenue Support Grant	6.5	
New Homes Bonus Grant	0.9	**41.6**
Council Tax Requirement	71.0	
Council Tax – 2% Adult Social Care	1.4	
Collection Fund Surplus/Deficit	1.9	**74.3**
Total Income		**115.9**



18. A summary of the 2020/21 budget by Service area is shown in the table below.

Directorate/Service	Expenditure £000s	Income £000s	Net £000s
Adult Services	54.8	(14.9)	39.9
Children's Services	102.3	(55.3)	47.0
Dedicated Schools Grant included in Children's Services. (2020/21 final allocation to be announced).	*42.0*	*(42.0)*	*0*
Public Health	11.7	(1.8)	9.9
Sub Total – Joint Commissioning Team	**168.8**	**(72.0)**	**96.8**
Corporate Services			
Community Services	5.6	(4.0)	1.6
Corporate Services	7.3	(3.4)	3.9
Customer Services	56.3	(53.3)	3.0
Housing benefit included in Customer Services	*50.1*	*(50.1)*	*0*
Sub Total – Corporate Services	**69.2**	**(60.7)**	**8.5**
Finance	27.8	(32.3)	(4.5)
Place			
Business Services and Regeneration and Assets	31.0	(17.8)	13.2
Investment Properties	10.9	(16.0)	(5.1)
Planning and Transport	9.2	(2.2)	7.0
Sub Total – Place	**51.1**	**(36.0)**	**15.1**
Total Expenditure and (Income)	**316.9**	**(201.0)**	**115.9**

Sources of Funding			
Council Tax			71.0
Council Tax – 2% Adult Social Care 2020/21			1.4
Collection Fund Surplus			1.9
Revenue Support Grant			6.5
Business Rates (NNDR)			34.2
New Homes Bonus Grant			0.9
Total Funding			**115.9**

Capital Plan 2020/21

19. As required by the Council's Constitution, the Capital Plan for 2020/21 has been published which is line with the Quarter Three budget monitoring report. As the Council has a rolling four year Capital Plan that is reported quarterly, the Capital Plan for 2020/21 is a "sub set" of the four year plan based on the latest monitoring information.

Spending Round 2019 and Local Government Finance Settlement 2020/21

20. In September 2019 the Chancellor announced a, one year only, Spending Round for 2020/21. The Spending Round announced high level department allocations and a number of service specific national allocations. Torbay's actual funding allocations for 2020/21 were confirmed in the provisional Local Government Finance Settlement.

21. The key issues from the Spending Round and Settlement are as follows:

- The Council's Revenue Support Grant (RSG) to rise by an inflationary amount,

- Council Tax Referendum limit for Councils set at 2% and over for 2020/21,

- Option of a 2% council tax rise for adult social are to be consulted on (by MHCLG),

- Grants received in 2019/20 will continue for another year in 2020/21, including social care, Improved Better Care Fund, Winter Pressures, Troubled Families and Flexible Housing. New Homes Bonus grant will continue with one additional year in addition to the "legacy" payments,

- A number of new funding streams were announced:

    - £1.0 billion nationally for "Social Care", un-ring fenced grant,
    - £0.7 billion nationally for Special Need pressures – ring fenced grant within the Dedicated Schools Grant,

- The Council's New Homes Bonus allocation has been confirmed at £0.9m which is linked to growth in the number of houses in an area. As comparison the 2020/21 allocations to Councils local to Torbay are: Plymouth £3.4m, Exeter £2.5m, Teignbridge £2.2m and South Hams £1.2m.

- No funding announcements for 2021/22 onwards. The next three year Spending Review is due in 2020. That uncertainty combined with a new 75% NNDR scheme and a new funding formula continues to make longer term financial planning very challenging.

Formula Funding and Business Rates Consultations 2020/21 (now 2021/22)

22. Immediately after the one year Spending Round, MHCLG announced a one year delay in both the introduction of the new funding formula and a revised NNDR retention system. However in reality, progress to a new funding formula has not significantly advanced since the two consultation documents issued in December 2018, although further consultation is expected in spring 2020. There is, therefore, still significant uncertainly around the Council's funding for 2021/22 onwards.

23. Key elements of the consultation were:

- NNDR Retention Scheme: From 2020/21 (now 2021/22) the MHCLG intend to introduce a 75% NNDR retention scheme for all Councils. The consultation sought views on the design of the scheme and how and when any NNDR growth is redistributed between Councils to keep the link between funding and need while retaining an incentive for growth. In addition the consultation suggested that NNDR baselines are changed on an annual basis to ensure councils are not disadvantaged by the impact of appeals.

- New funding formula to allocate new funding baselines and income baselines to all councils from 2020/21 (now 2021/22). The aim was to have as simplified a formula as possible that focusses on a limited number of key cost drivers. The consultation proposed an eight block formula then adjusted for general factors to reflect labour costs, rates costs and sparsity.

- There are seven specific formulas for major services – adults social care, children's' social care, highways, public health, legacy capital costs, fire and flood defence. All other services will form part of a "Foundation" block where it is proposed that this formula will be based on total population.

24. This proposal, although meeting the criteria of being transparent and simple, does not take into account other place based factors that significantly influence costs and demand, such as deprivation and coastal town issues. Also some services included in the Foundation block such as concessionary fares, home to school transport and housing/homelessness are clearly not linked to total population.

25. The Council responded to this consultation and liaised with the LGA and other "influencers" to attempt to ensure that the final formula is reflective of the issues Torbay faces. As part of this process the Council's Chief Executive and Head of Finance had a meeting with the then Local Government Minister, Rishi Sunak and Kevin Foster MP. In addition the Head of Finance participated in a children's services "round table" organised by the LGA with the DfE.

Dedicated Schools Grant

26. As part of the Spending Round additional funding was announced for the Dedicated Schools Grant – for both schools and higher needs. Torbay's 2020/21 allocation of these additional funds are yet to be announced but an overall increase of 5% in the schools block is expected. Within the average overall increase, individual schools will receive more or less than 5% depending on the impact of the changes in the formula and pupil numbers to their allocations.

27. The Council will, as usual, direct the entire grant received in respect of Dedicated Schools Funding through to those areas defined in the School Finance Regulations. As a guide for 2019/2020 the allocation of Dedicated Schools Grant (DSG) before academy school recoupment was £105m. For 2020/21 it is estimated that approximately £42m will be retained in the Council's budget for expenditure related to its (maintained) schools and other residual functions.

28. The DSG and the schools funding formula is being changed with full introduction of a new national simplified minimum per pupil funding formula from 2021/22. Movement of funding between these blocks is now limited and will cease altogether for schools block from 2021/22 with the introduction of the national school funding formula.

29. The key financial pressure within the DSG is in the Higher Needs block. The pressures on the Higher Needs block arise from the level of demand and referrals from schools for support to pupils. In recognition of this pressure Schools Forum for 2019/20 agreed to move 1.4% of the school block to the higher needs block which was subsequently approved by DfE. Despite this, the overspend on the block in 2019/20 is estimated to be £1.0m, resulting in a cumulative forecast deficit of £3.7m, which needs to be "made good" in future years.

30. As recognition of the national issues in the Higher Needs block, the Spending Round has allocated £0.7 billion nationally to support Higher Needs pressures. Although welcome the estimated additional funding for Torbay will be less than the current year forecast overspend.

31. The DFE have issued a consultation on the funding of deficits on the Dedicated Schools grant and have clarified that a deficit on this grant is not a liability to the Council and will need to be "made good" from future year DSG funding allocations.

32. Until the higher needs block achieves financial balance in the longer term, the DSG reserve will be used to fund the cumulative deficit as a "negative reserve". However holding a negative reserve is neither a recommended nor a sustainable solution.

Adult Social Care

33. The Council's budget proposals for 2020/21 includes the proposed contract sum agreed with the ICO and CCG to continue the highly regarded system of integrated health and adult social care within Torbay. A three year arrangement has been agreed, supported by a focussed cost improvement plan for adult social care. The contract value is £45 million plus £2m held as a specific contract contingency and, for 2020/21 only, a one off payment of £1m.

34. The contract sum includes Council adult social care funding including Better Care Fund, Improved Better Care fund, Winter Pressures grant and funding from the Adult Social Care council tax precept.

35. Any additional funds raised by the 2020/21 Council tax precept of 2% (approx. £1.4m) will be allocated for adult social care expenditure.

Children's Services

36. The rising costs of children's social care is driven by the number and complex needs of looked after children. The number, and therefore the cost, of looked after children is significantly high compared to similar council's. This cost has increased during 2019/20 as a higher number of children are being looked after in a residential placement (as compared to those looked after by a foster carer) at an average cost of £5,000 per week. In addition the numbers of agency staff in the service remain high (over 40) which results in both extra costs and inconsistency of care management.

37. Linked to the 2019/20 forecast expenditure, an additional £7m will be added to the children's social care budget in 2020/21 to re base the budget to current demand levels allowing for a contingency for further demand.

    £2m will be allocated to the service to enable investment in areas to enable service improvements. Areas for investment will include SEND, senior management capacity, commissioning, procurement, recruitment and retention, and investment in fostering in particular for carers who look after children with complex needs. No assumptions of reductions on the current levels of demand and cost have been included in the budget proposals for 2020/21. In addition in 2020/21 the Council will consider options in relation to implementing the "Torbay Promise", a targeted approach to early help.

38. In addition to the above a further £0.8m has been allocated to the service as one off funding for 2020/21 only to cover initial expenditure on both fostering and the social work academy prior to compensating reductions being realised.

Community Engagement

39. The budget does not contain any proposals in relation to the establishment of additional Town Councils.

40. In order to support the Partnership's ambitions for engagement with the community in particular for the community to work with the Council to both provide and support service provision, an allocation of £0.250m has been made for this purpose, of which £0.2m is one off funding and will be earmarked in a reserve for this purpose.

TOR2 Re-provision - "SWISCO"

41. The budget proposals include an estimated £1.3m saving from the re-provision of services after the expiry of the contract with TOR2 in July 2020.

42. The savings on re-provision are expected to be a combination of the financial gains from the operation of a new 100% council company compared to the current contract with Kier and from the re specification of services within the current TOR2 contract and also other "place" based contracts.

Investment Fund

43. Council in July 2019 approved an increase in the Investment Fund to £300m. The estimated surplus, after borrowing costs and contingency for future years, on these properties is now forecast to be £5.1m in 2020/21 (a £1m increase on 2019/20). In light of the HM Treasury increase in (future) Public Works Loans Board (PWLB) borrowing rates this target will need to be kept under review.

Estimation of Council Tax Surplus/Deficit

44. The Council makes an estimate of the surplus or deficit on the Collection Fund at year end from under or over achieving the estimated council tax collection rate which will be set in January 2020. For the budget proposals a net surplus of £2.1m (Torbay's 84% share) on council tax collection has been estimated.

45. As the Council sets a collection rate within its tax base equivalent to the amount collected in the 12 months of the next financial year any surplus primarily represents the collection of sums due in respect of previous years. This indicates a level of success in collecting old year debts and raises the overall, longer term, collection rate well above the "in year" rate, which is 96%.

46. As a local precepting authority, as defined in the Local Government Finance Act 2012, Brixham Town Council (or any new Town Council) will not be entitled to a share of any surplus or deficit on the collection fund.

National Non-Domestic Rates

47. The Council's NNDR income in 2020/21 comprises of three parts: a 49% share of NNDR income, a "s31" grant to reflect the loss of NNDR income to the council from central government changes to the NNDR (e.g. SBR) and a Top Up grant that reflects the difference in the Council's assessed "need" for funding compared to its actual ability to raise NNDR income (as set in 2013).

48. Since the introduction of the Business Rates Retention Scheme in April 2013, the Council is also required to declare a surplus or deficit for NNDR in a similar way as set out above for council tax. The forecasting of NNDR has involved a wide range of complex variables and influences and is an area which has caused further complications for medium term financial planning. Overall the Council is currently predicting an estimated deficit position of £0.4m (49% share) on its Collection Fund in respect of NNDR as at 31st March 2020.

49. Central Government have in late January 2020 now issued directions on changes to a number of NNDR reliefs to be applicable from April 2020. The Government acknowledge that this change is too late to be included in Council NNDR forecasts so will issue supplementary returns to be completed to reflect these changes and will provide compensation for these reliefs by way of a "S31" grant.

Council Tax and Referendum Limits

50. To control the level by which local authorities can increase Council Tax, the Government has set limits at which point a referendum would be required. Following the Spending Round this is expected to be set at 2% or over for 2020/21. The Partnership's budget proposal is for a 1.99% increase in this element.

51. In addition, again following the Spending Round, MHCLG have confirmed the option to increase council tax by a further 2% specifically for adult social care. The Partnership's budget proposals includes this 2% increase.

52. The Council Tax bill sent out to residents is made up of three main component parts, namely Torbay Council, Devon and Cornwall Police Authority and Devon and Somerset Fire and Rescue Authority. Once these have been declared they will be including in the Council Tax setting report which will be presented to Full Council at the end of February 2020.

53. The Secretary of State will consider the three component parts, not the overall bill, and, if one of the three organisations were capped, the Council would have to re-bill. In addition there will be a separate Council Tax charge for residents in the Brixham Town Council area. Brixham set their budget for 2020/21 on the 16th January at a precept of £335,006, a 10.55% increase.

54. In 2019/20, Torbay had the lowest Band D Council Tax in Devon at £1,801.84 including the Fire and Police precepts, but excluding parish and town council precepts. A summary of some other Devon Councils' Band D rates are as follows:

	Torbay (Unitary council)	Plymouth (Unitary council)	Exeter (City Council)	South Hams (District Council)	Teignbridge (District Council)
District Council	-	-	155.05	165.42	170.17
Devon County	-	-	1,384.29	1,384.29	1,384.29
Total	**1,503.04**	**1,514.34**	**1,539.34**	**1,549.71**	**1,554.46**
Fire & Police	298.80	298.80	298.80	298.80	298.80
Band D (excluding parish precepts)	**1,801.84**	**1,813.14 +0.6%**	**1,838.14 +2.0%**	**1,848.51 +2.6%**	**1,853.26 +2.9%**

Table last updated 8 April 2019

56. The differential between Torbay and the other Councils increases when Town and parish precepts are added. As a guide the 2020/21 precept for Brixham Town Council is £56.70.

Pay and Pensions

57. The 2020/21 pay award for staff has not yet been agreed. The budget proposals include an allocation for a pay award of 2% in services, whilst a contingency is also held to cover any impact changes in the living wage, a higher than 2% rise and/or increases on lower grades over the "headline" award.

58. In 2019 there was the triennial valuation of the Devon County Pension Fund to ensure that employer contribution rates are set to meet the long term employee pension benefits requirements. This has resulted in an increase in Torbay's "primary" rate to 16.7% (from 14.8%), however this increase has been more than offset by a significant reduction in the Council's "secondary" rate (i.e. deficit) lump sum payment.

Reserve Levels

59. In part from the significant overspend in 2019/20 where reserves of £4m will be required to balance the budget, the Council's general fund reserve of £4.6m is low compared to both the Council's overall expenditure and also in comparison to other Councils. The CSR reserve will also be below the minimum target level of £2m.

60. The 2020/21 budget proposals include a modest increase of £0.5m to the Council's general fund reserve. The Council also has the option, in order to give reserve levels a "boost", to swop revenue and reserve funded capital expenditure for prudential borrowing to up to £3m which will need to be funded from future revenue budgets. At this stage this option is not being proposed but will be considered if the Council's financial position deteriorates in 2020/21.

External Peer Financial Reviews

61. In November 2018 another LGA financial review was undertaken (and was reported to Council in January 2019). The report was positive in the achievements that Torbay has made to date to deliver a balanced budget. For information some recommendations from that 2018 report are repeated:

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

   b. 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.

   c. 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.

   d. 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.

e. 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.

f. 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.

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

h. 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.

CIPFA Financial Resilience Index

62. To provide more information and transparency on Councils' financial position, in particular after the issues in Northamptonshire County Council, CIPFA issued a "Financial Resilience Index."

63. The Index has been revised and the assessment of Torbay's position is that the "Indicators of Financial Stress" will rank Torbay as a "higher risk" Council but not at the highest level. Factors that show a higher risk assessment are in relation to children's' social care where the council's share of its budget on this service is high and it has an inadequate OFSTED judgement. Other factors showing a higher level of risk are the overall level of reserves compared to budget. Conversely lower risk is reflected by the level of spend on adult social care and no reduction in the level of general (unallocated) reserves.

Transformation Programme

64. Key to the longer term financial viability of the Council is the Council's transformation programme supported by a dedicated transformation team. The team supports the development of projects to help deliver financial savings. A number of these projects have already resulted in some savings which have been incorporated in previous year budgets and some for 2020/21. Projects include investment fund, income optimisation, council re design and improving collection fund income. The 2020/21 budget includes an allocation of savings arising from the council re design project.

65. The financial challenge facing the council is still significant with uncertainty of funding in 2021/22 onwards, therefore the transformation process is key to bringing forward viable projects "at pace".

Longer Term Future Council Funding

66. The Medium Term Resource Plan was updated by the end of March 2019 to include the impact of the approved 2019/20 budget and the latest estimates of future year costs and funding which predicted a funding "gap" of £18.5m. The Spending Round announced in September 2019 improved the financial outlook in 2020/21 however it moved funding uncertainty back to 2021/22 with the delay in the new funding formula and the revised NNDR system. However the continuing rising cost of children's social care has negated any potential improvement in the financial position for 2020/21.

67. As an initial guide, prior to more detailed work being undertaken post Council budget setting and the national Budget in March 2020, it is estimated that between 2021/22 and 2023/24 the Council will require in the region of over £16m of reductions to achieve a balanced budget.

68. 2021/22 will now be the first settlement after the Central Government Spending Review in 2020. That uncertainty combined with a new 75% NNDR scheme and a new funding formula makes longer term financial planning very challenging, which may vary the forecast gap by up to an estimated +/- £3m each year.

69. The aim of the above changes is that Councils will not have any central government "core" funding, with the Councils funded from council tax and NNDR. Councils therefore have a clear incentive that, to secure funding for services in the future, there has to be increases in both its council tax base (housing) and NNDR (business). It must be noted that MHCLG are still intending to control Council spend by the retention in the funding calculations of both funding baselines and income baselines. This is not only to control total funding therefore enabling overall funding reductions by changing tariff and top up grants, but also to enable total funding to be redistributed based upon need.

70. This reliance on local taxation as the prime source of funding has risks as the link between a council's need for funding to provide services (linked to population and demand) and its funding linked, in part, to economic growth may not move in a similar direction. In addition NNDR income is volatile and is, to a large extent, outside a Council's direct control. Spreading NNDR risk and reward over a wider area is therefore a benefit.

Budget 2020/21

**Embargoed until 3.00 p.m.
on 4 February 2020**

Budget Proposals 2020/2021

Cabinet's response to consultation

Contents

This document can be made available in other languages, on tape, in Braille, large print and in other formats. For more information please contact 01803 207014.

Statement from the Leader and Deputy Leader of the Council

We'd like to start with a big thank you to all the residents, organisations, community groups and partners who took part in the consultation on our proposed budget. We had over 870 responses (a significant increase over the number of responses received in the last two years) which we hope reflects the Council's new approach to consultation and engagement. We'd also like to thank the Overview and Scrutiny Board for their work in scrutinising our proposals and making their recommendations.

We have a statutory duty to balance the books, fund the significant financial pressures within children's social care, and despite the announcements in the Spending Round in September 2019, the Council had identified that £10.5 million of savings, efficiencies and income were needed to balance the budget in 2020/21. As a result of Government austerity, Torbay Council's Revenue Support Grant has been reduced from £42 million in 2013/2014 to an expected £6.5 million next year.

Over that same period of time, the budget for Children's Services has increased from £25 million to a proposed £47 million. In our most recent Ofsted monitoring letter, the financial investment in Children's Services to underpin wholescale change is recognised. As a Partnership, we are totally committed to improving our Children's Services and this is absolutely one of our top priorities going forward.

In terms of the responses to the consultation, there were two areas of the proposed budget which raised the most comments from the public – parking and public toilets.

The £365 annual **car park** permit has been a great success since it was introduced in 2017 but the Council's costs have continued to increase in the three years since it was introduced. We recognise that both the public and the Overview and Scrutiny Board do not agree with the proposal to increase the cost of an annual permit to £430. We are still proposing to increase the cost of the annual permit but to a lower amount – £395 which represents a 2.7% a year since 2017. This means that, with this permit, residents and workers can park in Torbay's car parks for £1.08 per day.

In order to achieve the expected 3% increase in parking income over 2020/2021 there are further modest increases in charges proposed which are set out in the Fees and Charges document.

In respect of **public toilets**, we are have listened to the concerns raised by the community and fellow councillors. We are proposing investing a further £100,000 meaning that there will be a total increase in the investment in public toilets of £0.6 million. This additional investment will see a new single pod toilet at Goodrington South alongside the planned investment at Meadfoot, Broadsands, Goodrington North, Abbey Meadows and Preston Bus Shelter. We will also work to find a delivery partner for the facilities at Corbyn Head over the next year.

We recognise that public toilets are highly valued by the community and play a significant role in our tourist offer, but they are a non-statutory service and moving towards a quality pay-per-use system is the only sustainable way to continue to provide this service. We believe that this is the best way in which to ensure that there is sufficient capacity in all major resort areas, offering much improved facilities for both residents and tourists and keeping within the available budget. This investment is on top of the £1 million already committed by the Council to improving toilets across Torbay. Over the last year, six of our new toilets won national Platinum awards and Torbay's toilets are ranked in the top 20 of all facilities in the country.

The Cabinet have also considered carefully the recommendations made by the Overview and Scrutiny Board and made the following changes to the proposals for the Revenue Budget.

When the draft budget was published, it was recognised that the full saving from moving to a trust model to support **UNESCO Geopark** status was not likely to be achieved by 1 April 2020. The Cabinet recognise the concerns of the Overview and Scrutiny Board and, whilst it is felt that moving towards a Trust model remains appropriate so as to provide long term sustainability, it is recognised that it is likely to take at least two years before the Trust is established. Therefore we are withdrawing this budget saving at this time in order to allow the Trust to be established.

The Cabinet understand the concern that it is unrealistic to expect to receive increased revenue from our assets in light of the proposed reduction in the annual management fee paid for **asset management**. We therefore propose that there should be no reduction in the funding for asset management.

The target of achieving additional rental income will remain in the budget as the Council needs to ensure that it is maximising all of its rental opportunities in order to maintain vital services for its residents.

We are also proposing to fully reinstate the previously agreed reduction in the management fee paid to the Torbay Coast and Countryside Trust.

In response to the comment from the Overview and Scrutiny Board on the use of Capital Funding and funds from Section 106 Agreements to support **essential highway repairs**, the Council will continue to have full regard to any specific requirements on individual Section 106 Agreements. However, we must make best use of all available resources and will continue to ensure that highway works are undertaken using the most appropriate funding sources on a case by case basis.

The Overview and Scrutiny Board also made comments about how the proposed budget provides resources to meet the aspirations within the draft Community and Corporate Plan.

The Cabinet has been clear in its aspiration that Torbay should be the **UK's premier resort**. We are also committed to working closely with our partners – in the private, public and voluntary sectors – to deliver this aspiration. Over the coming year, we will continue to work with the BID Company, the Business Forum and wider groups to review how we can continue to move towards this long term vision.

This needs to be balanced with the financial position of both this Council and local government generally. We are continuing to lobby the Government, through our MPs and direct with the Government, for a fairer funding formula, a better share of funding for local government in the spending review and for specific funding for our ambitious programmes around regeneration.

In the meantime, we need to ensure that we maximise the income that we are able to generate in order that we can continue to deliver services which are vital to our communities and visitors and so that we can invest to improve our infrastructure. We will also be allocating £30,000 to support community activities in this area.

We have also identified as one of our visions that we will tackle **climate change** and there is already a range of work across the Council to help meet this goal. It has been pleasing to hear throughout our consultation period that the community shares our commitment to addressing the climate change emergency. We recognise that there is much more to do and we are committed to working together with the community to play Torbay's part in addressing the climate emergency. To do this, we are taking the significant step of providing funding for a full time climate change officer who will be responsible for co-ordinating our approach as a Council and across the wider community.

We are also committed to **improving housing** in Torbay and our priorities around this important issue are set out in our draft Housing Strategy. These range from increasing the supply of housing, ensuring there is appropriate housing for people's needs and improving the quality and sustainability of our housing. Again, we recognise that there is a huge amount of work to do and therefore we are investing in a further post to drive forward delivery of our new Housing Strategy.

Increasing the recycling rates in Torbay has a number of environmental benefits. As we continue to improve how we engage with our communities, a programme of promotion and education to increase our recycling rates will be a priority especially once the services currently provided by TOR2 come under direct Council management, through a wholly owned company of the Council.

We believe that moving to three weekly residual waste collection will assist in increasing recycling (as has been shown in areas such as East Devon, Rochdale and Anglesey where this type of collection has been introduced), will help with our response to the climate change emergency, as well as a reduction in costs for the Council. However to ensure that this works in Torbay, a trial of the three weekly residual waste collection will be undertaken in parts of Torbay in the second half of 2020/21, before it is rolled out across the Bay.

We will be working closely with the community and our partners over the coming year to ensure that we have a clear framework in place to enable community activity and sponsorship opportunities for our flower beds. Again we will be looking to ensure we prioritise those areas which are valuable to our aspiration as the premier tourist resort in the UK.

We are proposing a balanced Revenue Budget of £115.9 million for 2020/2021 which will see us deliver a wide range of services to our residents. The pressures on our budgets will continue but we are committed to working with our communities and partners to find alternative methods of service delivery.

Councillor Steve Darling
Leader of Torbay Council

Councillor Darren Cowell
Deputy Leader and Cabinet Member for Finance

Introduction

This document and the papers which support it set out the Cabinet's final proposals for the Revenue and Capital Budgets for 2020/2021. It highlights the difficult choices which need to be made.

The Cabinet published its draft budget proposals in December 2019 for consultation. During the consultation period, feedback has been received from service providers, partner organisations, service users, the community and voluntary sector and the general public. That feedback has been gathered through the questionnaire (which was available online and in hardcopy), from Torbay Council's social media channels (including responses to the Ask Us Facebook Live panel held in early January) and via the Cabinet Conversation. Members of the Cabinet have also attended a range of meetings such as community partnerships and the engagement meeting held by Torbay Community Development Trust.

This report reflects the feedback received and outlines the changes that have been made to the Cabinet's proposals as a result. It also reflects the (provisional) Local Government Funding Settlement which was published in December 2019 and any other service grant allocations announced.

Alongside this document a number of others will be published and will be available on the Council's website (**www.torbay.gov.uk/budget-202021**) and are listed below:

- **Proposals for Efficiencies, Income Generation and Service Change**
  This sets out details of all of the final proposals for service change, income generation and savings in order to produce a balanced budget for 2020/2021. We have included the high level environmental, economic and equality impacts of each proposal which we want to test with you during the consultation period. Where a proposal has been assessed as having a material impact on service users, an **Equalities Impact Assessment** has been prepared and updated to take account of consultation feedback.

- **Torbay Council – Proposed Revenue Budget Digest**
  This provides a description of what each Council service does and how much it is proposed that they will spend next year including how much income they will receive.

- **Fees and Charges**
  The amount that the Council proposes to charge for its services over the next year.

- **Capital Plan 2020/2021**
  This explains which capital schemes the Council plans to fund over the coming year.

- **Reserves**
  The current and forecast position on the use of the Council's reserves.

Other documents which will be updated and published on the Council's website will include the Capital Strategy and the Treasury Management Plan.

The Cabinet's final budget proposals will be considered at the Adjourned Meeting of the Council being held on 13 February 2020. If the proposed revenue and capital budget are approved by a majority of councillors then they will be adopted on the night. If an objection to the budget is proposed and approved by a majority of councillors, the budget will deferred to the following meeting. Any approved objections will be considered by the Cabinet and a response provided to the meeting of the Council on 27 February 2020 when the budget will be decided.

Council Tax levels will be set at the meeting of the Council on 27 February 2020 as the Council has to wait for notifications from the Devon and Somerset Fire and Rescue Authority, the Devon and Cornwall Police and Crime Commissioner and Brixham Town Council before setting the overall Council Tax for Torbay.

Details of the meetings when the budget proposals will be discussed are available on the Council's website: **www.torbay.gov.uk/meetings-and-decisions**

Revenue Budget 2020/2021

1. Funding Changes

The budget has been updated as various funding and income streams have been confirmed since the draft proposals were published in December 2019. The changes in funding are set out in Table 1 below:

Description	Increase in Funding £000	Commentary
Sources of Funding	271	Increase as a result of final calculations/allocations in relation to the Council Tax Base, National Non-Domestic Rates, Revenue Support Grant and New Homes Bonus
	271	

2. Service Expenditure Changes

Since the Cabinet's budget proposals were issued in December 2019, the Cabinet has considered the views of the wider community and Members of the Council which have been provided during the consultation period. This has included the views of the Council's Overview and Scrutiny Board which were set out in its report to the Cabinet and is available at **www.torbay.gov.uk/scrutiny**

The results of the consultation have been included within the relevant Equality Impact Assessment and in the overall report from the consultation exercise. The budget proposals issued in December 2019 have been updated and republished. All of these documents are available at **www.torbay.gov.uk/budget-202021**

A summary of the changes in income and expenditure since the initial proposals were published are summarised in Table 2 below. This includes changes in the funding of the Council as a result of Government announcements, decisions taken by the Council since the draft budget was published and other pressures within the Councils services.

The table at the end of this document lists all of the Cabinet's proposals with those highlighted indicating the amended or new proposals.

Description	Reduction in Expenditure/ Higher Income £000	Increase in Expenditure/ Lower Income £000	Commentary
Grant notifications	30		Confirmed grant allocations.
Treasury Management	115		Latest forecast of borrowing costs and investment income.
Torbay Coast and Countryside Trust		26	Full reinstatement of previously agreed management fee reduction.
Resort Services		30	Allocation to support community activities in relation to resort services.

Car Parking		30	Reduction in expected income resulting from decreased proposed cost of annual car parking permit.
Climate Change		50	Costs associated with the proposed appointment of a full time climate change officer.
Housing Strategy		40	Costs associated with the proposed appointment of an officer to drive delivery of the Housing Strategy.
Asset Management		100	No reduction in the management fee for asset management.
Contract Management		50	Investment in contract management function so as to drive efficiencies and savings.
Toilets		50	Funding for additional investment and to maintain Corbyn Head toilets whilst an alternative delivery partner can be identified.
UNESCO		40	Saving unlikely to be achieved within 2020/2021.
Sub total	**145**	**416**	
Net Change in services		**271**	

3. Summary Budget Proposals

As a result of the changes to funding and service expenditure detailed in the sections above, the Cabinet's budget proposals for 2020/2021 are as follows:

	£000
Cabinet's Budget Proposals (December 2019) **(Funding)**	115.6
Funding Changes (from Table 1 above)	0.3
Cabinet's Budget Proposals (February 2020) **(Funding)**	**115.9**
Cabinet's Budget Proposals (December 2019) **(Net Expenditure)**	115.6
Service Expenditure Changes (from Table 2 above)	0.3
Cabinet's Budget Proposals (February 2020) **(Net Expenditure)**	**115.9**

4. Revenue Budget 2020/2021

The Council is being asked to approve the Cabinet's proposal for the total net revenue budget for 2020/2021 and the budget that will be required to be funded from Council Tax, as set out in the following table:

	£000
Net Revenue Expenditure	114.5
Adult Social Care (funded from 2% Council Tax)	1.4
Total Net Revenue Expenditure	**115.9**
Funded by:	
Business Rate Retention Scheme	34.2
Revenue Support Grant	6.5
New Homes Bonus	0.9
Council Tax Requirement (including a 1.99% rise)	71.0
Council Tax Requirement (2% rise for Adult Social Care)	1.4
Collection Fund (Council Tax and NNDR)	1.9
Total Income	**115.9**

The value of Council Tax resulting from a rise in the Torbay element of the Council Tax of 3.99% is £72.328 million. A 3.99% rise will increase the Band D Council Tax in Torbay by £59.97 (of which the 2% rise for adult social care is £30.06).

When the Council formally sets the Council Tax, the Council's budget has to include the budget for the Brixham Town Council which was confirmed on 16 January 2020. The value of this precept (£335,006, a 10.55% increase) will be included as part of the Torbay Council budget for Council Tax setting purposes.

At this time the Council is awaiting the notifications from the Devon and Somerset Fire and Rescue Authority and the Devon and Cornwall Police and Crime Commissioner as to the value of their precepts.

The Council is also being presented the allocation of the 2020/2021 revenue budget to individual services as identified in the Budget Digest which has been circulated separately. The allocation of budget to services is a key part of the Council's financial control arrangements. The Financial Regulations in the Constitution govern any subsequent in-year budget changes. The approval of fees and charges for 2020/2021, in addition to supporting the achievement of budgeted income, provides clarity to services and service users. The Officer Scheme of Delegation governs any subsequent in-year changes to fees and charges.

A summary of the budget by service area is shown in the table below:

Service	Expenditure £000	Income £000	Net £000
Joint Commissioning Team			
Children's Services	102.3	(55.3)	47.0
Adult Social Care	54.8	(14.9)	39.9
Public Health	11.7	(1.8)	9.9
Sub-Total – Joint Commissioning Team	**168.8**	**(72.0)**	**96.8**
Joint Operations Team			
Corporate Services	69.2	(60.7)	8.5
Place Services	40.2	(20.0)	20.2
Finance & Central	27.8	(32.3)	(4.5)
Investment Portfolio	10.9	(16.0)	(5.1)
Sub-Total – Joint Operations Team	**148.1**	**(129.0)**	**19.1**
Total	**316.9**	**(201.0)**	**115.9**

Capital Plan 2020/2021

The proposed Capital Plan of £143 million for the next financial year is comprised of schemes which have previously been approved.

Torbay Council's Capital Plan totals £394 million for the four year programme to 31 March 2023 with £125 million scheduled to have been spent in 2019/2020 and £143 million due to be spent in 2020/21.

There is a wide range of schemes and projects expected to be undertaken in 2020/21:

- Investment of £44 million towards supporting thriving people and communities including the development of affordable housing, expansion of pupil places in Paignton and, subject to progress, the redevelopment of Crossways.

- Investment of £30 million to support a thriving economy including Regeneration Fund projects, industrial units at Claylands, the Riviera International Conference Centre and the final payments in relation to South Devon Highway

- Purchasing of commercial properties will continue with £65 million expected to be spent in the next year. The 2020/21 budget estimates a £5.1 million surplus to support council services.

Appendix 1: Summary Budget Proposals 2020/2021

The proposals are for revenue (net) budget reductions from either a reduction in expenditure or an increase in income (marked *). Those shown in ***bold italics*** have changed since December 2019.

Proposal	Amount £000	Proposal	Amount £000
Thriving People		**Tackling Climate Change**	
Torre Abbey	30	Change in management of TOR2 services	963
Music Hub	8	Parks, grass cutting and litter/park bins	191
UNESCO Geopark	***0***	Planting areas	158
Development and Planning Services	40 *	Household DIY waste	38 *
Environmental Enforcement Service	70 *	**Council Fit for the Future**	
Thriving Economy		Rationalise number of Council buildings	28
Beaches Service	***30***	Civic Mayor	5
Use of Capital and Section 106 monies for highways repairs	180	Printing of agendas	2
Annual parking permits	***-12 ****	Redesign of Council operating model	386
Public toilet investment	***-50***	Full cost recovery for services	50 *
Asset management	***0***		
Rental income	50 *		

TORBAY COUNCIL

Meeting:	**Cabinet**	**4 February 2020**
	Council	**6 February 2020**
Wards Affected:	**All**	
Report Title:	**Review of Reserves 2020/21**	
Cabinet Member Contact Details:	**darren.cowell@torbay.gov.uk**	
Supporting Officer Contact Details:	**martin.phillips@torbay.gov.uk**	

---

1. Purpose

1.1 The Council holds a number of reserves as part of its approach to maintaining a sound financial position, protecting the Council to some degree from volatility in its budget going forward. The requirement for financial reserves is linked to legislation such as the Local Government Act 1992 which requires councils to "have regard" to the level of reserves needed to meet future expenditure when calculating a budget. Part of sound financial management is to assess the adequacy of these reserves and release those reserves no longer required.

2. Proposed Decision

2.1 That, in support of the 2020/21 budget setting process, Council note the Council's reserves position.

3 Reasons for Decision

3.1 A Review of Reserves is a key part of the Council's budget setting process. Consideration of reserve levels is linked to legislation for budget setting contained in both the Local Government Acts of 1992 (section 31A & 42A) and 2003 (section 25) and linked to section 114 of the Local Government Finance Act 1988.

3.2 The Council is facing significant financial pressures in 2019/20 from children's social care with the current predicted overspend on this service of £6.7m (as at quarter three 2019/20). A number of earmarked reserves have been used to support expenditure in 2019/20 to leave an estimated balance of £1.5m to be funded from the Comprehensive Spending Review (CSR) Reserve. This will reduce the forecast level on this reserve to be below the target level.

3.3 The Council's unallocated (general) reserve levels are at a low level. Funding the significant overspend on children's social care in 2019/20 has reduced the flexibility on Council reserves to below minimum target levels. However the Council has, to date, avoided any use of its general fund reserve. As some mitigation the 2020/21 budget proposals includes an increase of £0.5m to the CSR reserve to maintain the previous £2m target level. As context however the projected 2019/20 overspend for children social care of £6.7m, if repeated in 2020/21, would clear the combined values of the CSR Reserve and the General Fund reserve. This would be a <u>major concern</u> for the Council. As further mitigation to this service's demand and therefore its financial pressures, the 2020/21 budget proposes a real terms increase in the children's social care budget of £9m (over 25% increase).

3.4 As a direct result of the low level of general reserves it is an option for the Council to approve prudential borrowing of up to £3m to fund items in the capital plan that were to have been funded from revenue or reserves. This results in ongoing borrowing costs which will need to be included in future year budgets, but does give a boost to reserves that are very low. This funding could be added to both the General Fund Reserve and the Comprehensive Spending Review Reserve. This will then provide a higher level of mitigation for the Council by increasing the general fund reserve and increase the Comprehensive Spending Review Reserve to above minimum target levels. This option can be taken by Council in year if financial issues materialise in 2020/21 or future years.

3.5 The total balance of reserves may seem adequate however an examination of the individual reserves shows the majority of reserves where the balance is ring fenced, links to a partner or is for a specific future funding issue or a specific future risk, therefore the flexibility to use those reserves to apply to an overspend position is limited.

3.6 The other significant reserve risk the Council is holding is in relation to the deficit balance on the Dedicated Schools Grant due to higher demand and cost in relation to children who require additional support. The "negative reserve" is expected to be £3.7m by the end of 2019/20. This deficit, based on DfE guidance, is not a Council issue to fund but should be "made good" from the Dedicated School Grant in future years. However it is unlikely that the deficit will be recovered in the next few years so this is a rising deficit of significant value that the Council will have to cash flow and hold as a negative reserve. It is unclear how the DfE intend to ultimately resolve this issue, <u>therefore this is still an underlying unfunded risk.</u>

3.7 Due to the significant financial risks facing the Council in 2020/21 and future years it is essential that the Council's reserves provide a sufficient contingency to meet this increasing risk and to ensure a robust budget. Following previous Review of Reserves and the Medium Term Financial Plan, it is recommended that, as a result of the level of current and previous year budget variations, to now target to maintain the balance of the CSR Reserve at a minimum of £3m.

3.8 In addition to the rising demand pressures for social care, the future financial risks facing the Council are compounded by the uncertainty, beyond the one year Spending Round 2019, over future funding levels for the Council. In the absence of clarity from central government, councils, including Torbay, will inevitably aim to mitigate against that uncertainty. Uncertainties for Torbay Council include:

a) No funding allocations for 2021/22 onwards
b) Impact of Spending Review 2020 in 2021/22 onwards
c) Impact on new funding formula for Councils in 2021/22
d) (Probable) Ending of New Homes Bonus Grant in 2021/22
e) No allocations for specific grants such as Improved Better Care Fund or Troubled families for 2021/22
f) Impact of relative resource (council tax and service) equalisation in 2021/22
g) Impact of the new 75% NNDR retention scheme in 2021/22
h) Impact of the revised NNDR baselines in 2021/22
i) Future funding of Higher Needs Block in new schools funding formula 2021/22

3.9 The Council is undertaking a number of activities that have a higher level of risk associated with them. This includes the Investment Fund and both affordable and extra care housing where the Council is investing a significant amount funded by prudential borrowing. Whilst significant business case analysis and due diligence of proposals is undertaken, there is always a risk that the projects will not deliver the income required to cover the "fixed" costs of the borrowing. These more commercial activities carry a higher level of risk and reward which is linked to changes in income streams (such as rent) and also fluctuations in the values of any underlying assets. The level of reserves needs to be considered in this context.

3.10 It is clear that the Council has lower levels of General Fund reserves than most other councils.

3.11 Members are again reminded of the advice previously given by the Head of Finance, that reserves should not be used for supporting ongoing recurring expenditure. Use in that way is not financially sustainable as reserves can only be spent once.

3.12 <u>Head of Finance Statement.</u>

3.13 The Council is continuing to face financial challenges. I am satisfied that the Council's General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council's Financial Plans for 2020/21 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment.

3.14 This view has to be caveated that if the Council has unforeseen financial pressures, such as an in year budget overspend, then the Council's ability to fund these variations is limited. However this view can be mitigated if the following actions are undertaken:

a) The 2020/21 budget plans for an increase to the CSR reserve to achieve a minimum ongoing balance of £3m over the next two years.
b) That the Council continues to focus on children's social care as the biggest financial risk to the Council to deliver the identified improvements supported by a robust financial recovery plan and the sufficiency strategy

c) That a balanced revenue budget can be set for 2020/21 including a significant increase in the children's' social care budget to reflect actual levels of cost and demand.
d) That the budgeted Investment Property surplus for 2020/21 is achieved.
e) That the Council continues to delivers its transformation programme at pace
f) That Council recognises the option of using borrowing to fund capital plan to enable an increase to reserve levels by £3m if needed

3.14 At this stage with the significant uncertainty in relation to central government funding for 2021/22 I am currently unable to give any assurance in relation to 2021/22. I recommend, however, that the Council continues to be prudent in its use of reserves and plans for future risks and their mitigation. These to include:

a) Maintaining a balance on CSR reserve of £3m
b) Protection to current level of General Fund Reserve
c) No reserves used to balance 2020/21 or future year budgets
d) Specific material risks still mitigated for – such as insurance, NNDR volatility and investment fund
e) Regular updates and awareness of the risks identified in the Medium Term Resource Plan
f) That the Council continues to delivers its transformation programme at pace in medium term
g) Continued focus on reducing spend in children's' social care

For more detailed information on this proposal please refer to the supporting information attached.

Martin Phillips
Head of Finance

Supporting information

A1. Introduction

A1.1 A Review of Reserves is part of the Council's annual budget process.

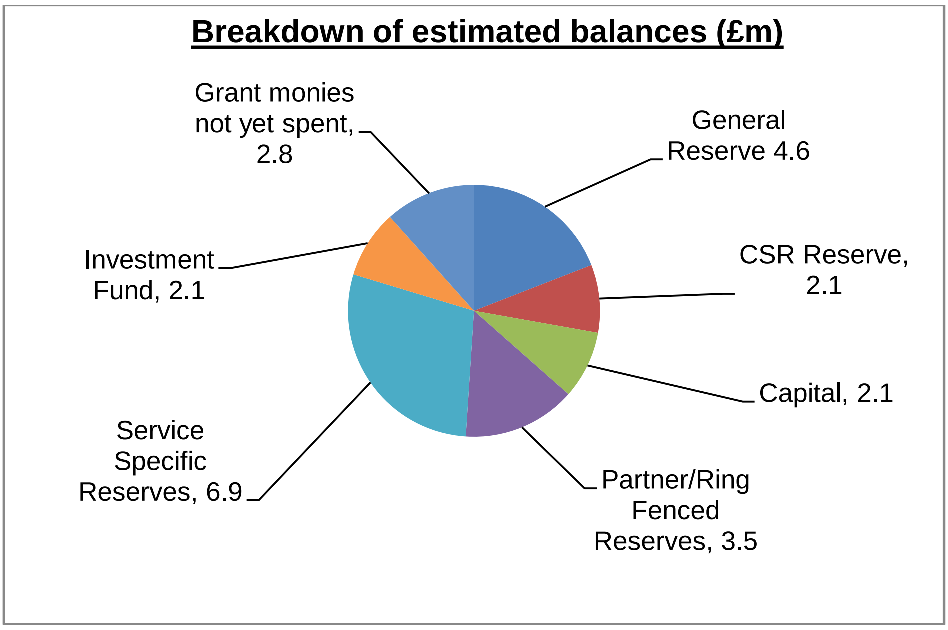
A2 Review of Reserves 2020/21

A2.1 Overview

A2.2 As at 31/03/2019 Torbay Council's reserves were as follows:-

	31/3/19 actual	Change in year	31/3/20 estimate
	£m	£m	£m
General Fund Reserve	4.6	0	4.6
Sub Total - General Reserves	**4.6**	**0**	**4.6**
Comprehensive Spending Review Reserve	4.9	(2.8)	2.1
Capital Funding Reserves	3.4	(1.3)	2.1
Grant monies – received, not yet spent	5.6	(2.8)	2.8
Schools	1.0	(0.1)	0.9
Dedicated Schools Grant (NEGATIVE)	(2.6)	(1.1)	(3.7)
Partner/Ring Fenced Reserves	3.6	(0.1)	3.5
Investment Fund Reserve	1.8	0.3	2.1
Other Service Specific Reserves	10.7	(3.8)	6.9
Sub Total – Earmarked Reserves	**28.4**	**(11.7)**	**16.7**
Total Reserves	**33.0**	**(11.7)**	**21.3**

A2.3 From the table above, the estimated balances (in £m) as at 31/3/20 is as follows. The negative balance of on school related grants is excluded but is linked to the higher needs overspend of £3.7m in the dedicated schools grant.



A2.4 A list of the Council's Reserves as at 31/03/2019 is attached in Appendix 1.

A2.5 This report is, for another year, highly influenced by the significant financial risks facing the Council predominately from current financial pressures within children's social care (safeguarding and wellbeing). For the next three years from 2020/21 the financial risk from Adults Social care will be mitigated by the revised ICO contract that limits the Council's exposure to financial risk.

A2.6 The Council's prudent approach to its reserves has enabled the Council to fund the overspend arising in children's social care over the past few years and to part fund the significant £6.7m forecast overspend in 2019/20. However the Council's ability to fund future deficits of that value is now limited and if that occurs will result in a serious financial position for the Council.

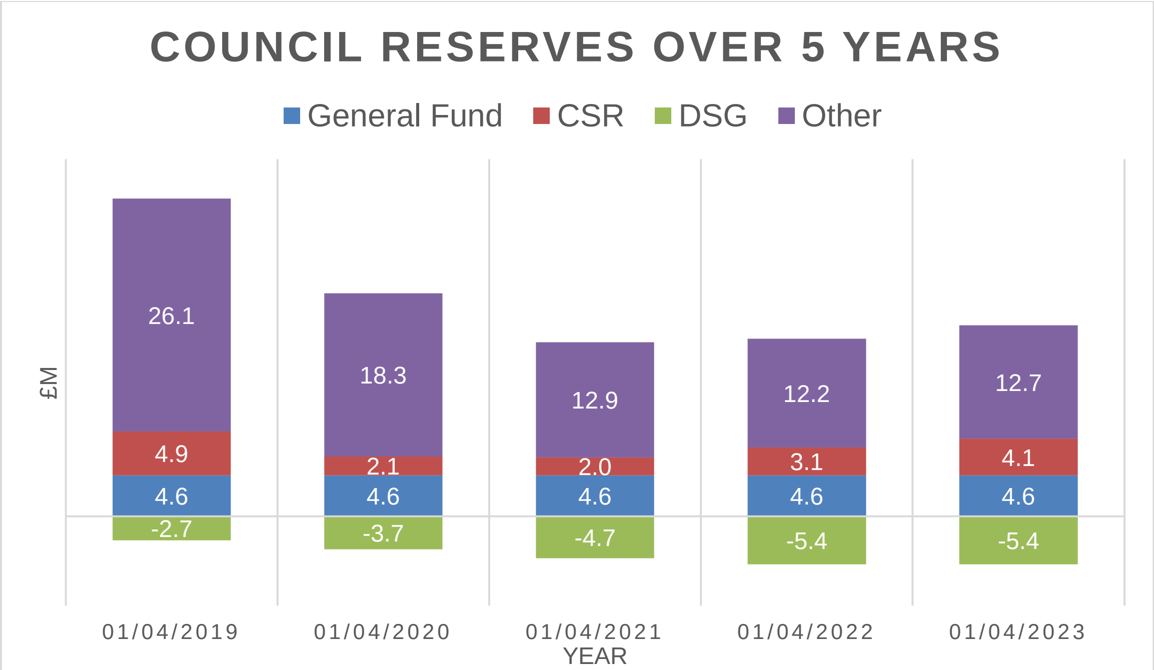
A2.7 Following consideration of the Review of Reserves in previous years, that was approved by Council, it was accepted that the significant financial pressures facing the Council in future years should be noted and "and agreed, as a policy decision, the allocation of additional funds, as required, to the Comprehensive Spending Review Reserve in each budget process to increase, and then maintain, an ongoing minimum balance in the reserve of £2m". This policy remains financially prudent for the Council albeit with a revised target level of £3m.

A2.8 The Council has had unprecedented financial challenges from reduced funding levels over the past few years and had a further £4m reduction in its Revenue Support Grant in 2019/20 to £6m (from £42m in 2013/14), in addition to any future expenditure pressures such as inflation and increase in demand. Although the Spending Round 2019 will result in a modest funding increase for the Council, there are no funding announcements for 2021/22 onwards.

A2.9 As outlined in paragraph 3.2 above, given the significant uncertainly facing the Council it is clear that the Council needs to mitigate and plan for variations in income as well as expenditure.

A2.10 To be able to meet future years' budgets and reduce the reliance on the use of reducing reserves it is essential that the Council progresses and achieves savings and income generation from its Transformation Portfolio and an absolute reduction in the cost of Children Looked After.

A2.11 Each reserve has been assessed for its estimated balance as at 31st March 2020 and for the estimated additions or withdrawals from the reserve during 2020/21 and future years. This is included in the table at Appendix 1.



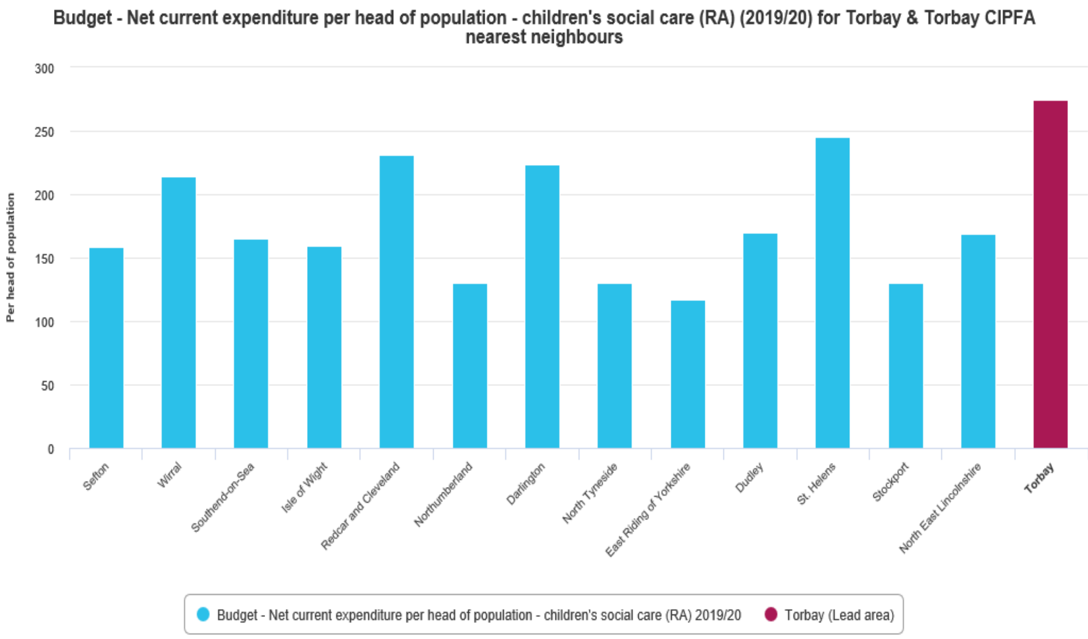
A2.12 The table, (based on this review of reserves), shows that the level of reserves is expected to decrease by £12m during 2019/20 to £21m. The actual balance at year end will depend on spend during the year and any year end service carry forwards from unspent revenue funds and/or unspent grant allocations which usually results in higher reserve levels than predicted.

A2.13 <u>Adults Social Care</u>

A2.14 A new three year agreement has been signed with both the Integrated Care Organisation (ICO) and Clinical Commissioning Group (CCG) with the Council funding a "fixed" annual payment in exchange for no exposure to the risk of changes in cost. This therefore reduces the exposure to financial risk on this service to nil. However if this fixed payment does not exist, at any point in the future, then the Council will again be exposed to the risk of volatility of both demand and cost in this key service.

A2.15 <u>Children's Social Care</u>

A2.16 This service has experienced a high level of financial volatility over the past few years and has exceeded its approved budget in recent years and is projected to overspend by £6.7m in 2019/20 (quarter three. This higher cost is top of an existing level of numbers/cost which are significantly above the "benchmark" for similar councils.



A2.17 The proposed budget for 2020/21 for the service is being increased by £7m to reflect the current year financial position for children's services with the aim of setting a robust budget for that service and allow an additional £2.8m for investment in capacity to deliver future service and financial improvements.

A3.0 **<u>Guidance on the Management of Reserves</u>**

A3.1 The CIPFA guidance on reserves is to be updated with the introduction of the CIPFA Financial Management Code of Practice in 2020.

A3.2 The Code is expected to state that:

- The aim of reserves is to provide funding for investment in future activities and to act as a safety net in case of short term financial challenges

- Using reserves to fund otherwise unsustainable services or to defer the need to make difficult decisions about service delivery is to be avoided

- The Council should have a policy on the level of reserves it wishes to retain and how these reserves may be used

- The Council should be able to demonstrate that it has used its reserves only for investment in future activities or in the implementation of savings plans rather than to plug funding gaps in the delivery of services

A3.3 In undertaking a detailed annual review of reserves that is presented to Council, Torbay Council is largely complying with the CIPFA guidance.

A3.4 It is important to differentiate between general and uncommitted reserves and reserves held for a specific purpose. It is only the general and uncommitted reserves that could be used to support "short term costs". As shown in the table above, as at 31st March 2019 the Council's uncommitted reserves were part of the Comprehensive Spending Review reserve and the Council's general fund balance (£4.6m) which is discussed later. The Council does not have a large value of unallocated reserves compared to its overall budget or compared to the value of budget reductions required over the next few years or compared to the value of the in-year budget variances in social care over the past few years.

A3.5 The Head of Finance is reluctant to use any reserve funds, which can only be spent once, to support ongoing expenditure as this is not financially sustainable, as it only delays the impact of the required budget reductions.

A3.6 This position taken by the Head of Finance is similar to CIPFA guidance which says "Councils should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is to be taken, this should be made explicit, and an explanation given as how such expenditure will be funded in the medium to long term".

A4 Earmarked Reserves

A4.1 The following paragraphs make specific comments on a number of reserves. A summary of each reserve and their purpose is included as Appendix Two. During 2019/20 a number of balances have been identified by Head of Finance as surplus and these have been transferred to fund the 2019/20 overspend in children's social care. Further information on all Council Reserves is available that shows details about each reserve, including the reason/purpose of the reserve, how and when the reserve can be used and the process for retention of each reserve to ensure continuing relevance and adequacy.

A4.2 Comprehensive Spending Review Reserve

Due to the significant financial risks facing the Council in 2019/20 and future years it is essential that the Council's reserves provide a sufficient contingency to meet this increasing risk and to ensure a robust budget.

In addition to the need to part fund the 2019/20 overspend from this reserve, a number of specific issues are also to be addressed from this reserve including SWISCO set up, youth trust set up, transition costs of both the libraries and toilet contracts, fostering support, 19/20 budget approved transfers and funding for additional posts in the SEN team.

As part of the 2020/21 budget proposals it £0.5m will be allocated to the CSR reserve. However given the levels of budget variation the Council has experienced in recent years, the minimum target reserve level should now be £3m. The contribution of £0.5m with additional contributions in future years will help to provide a higher level of risk mitigation for the Council.

A4.3 Dedicated Schools Grant Reserves

The reserve for Dedicated Schools Grant is estimated to be "negative" by £3.7m by the end of 2019/20. Funding for schools activities are primarily funded though the dedicated schools grant (DSG). The Council does not receive any schools funding within its own grant and funding allocations. This grant is allocated in "blocks" to cover different activities – in 2019/20 these "blocks" are early years, higher needs and schools. The higher needs block has in the past three years have been under financial pressure as a result of an increasing level of referrals from schools for higher needs support for children resulting in a cumulative over spend of £3.7m at the end of 2019/20 expected to rise in the next two years to over £5m which a significant value, which ultimately will need to be funded.

The Council does not receive any funding for schools therefore the over spend will remain in the DSG to be funded in future years and the DFE have confirmed that this is not a cost the Council will fund. As a recognition of this pressure the Schools Forum (who have a governance role in the allocation of schools funding) have been supportive and agreed an allocation of 0.5% of the 2020/21 schools block of the DSG (approx. £0.4m) to part fund this overspend and set up a Higher Needs Recovery group.

DfE have allocated additional funding to the Higher Need Block in the Spending Round 2019 a further £0.7m billion nationally for this issue, which is welcome. However this funding is not expected to be enough to meet the current annual deficit in funding. Confirmation of Torbay's share of this additional funding will be confirmed later in 2019.

<u>The ongoing use of a negative reserve which is likely to increase in future years is currently a significant financial risk that needs to be highlighted to Members.</u>

A4.4 <u>Investment Fund Reserve</u>

The Council has now invested over £231m in investment property and capital loans (as at December 2019) and based on approvals to date could invest another £69m. This, more commercial activity, introduces new risks and rewards for the Council to manage. The risks in relation to variations in income such as changes in rent, void periods, rent reviews, landlord costs etc. This is mitigated by making an annual contribution to a specific reserve that, as a principal is 0.25% per annum of the purchase costs but will vary depend on the risks associated with each property. The key risk is in relation to rent "events" linked to lease renewals as a result the contribution on a number of properties is currently 1%. This will be continue to be reviewed by Head of Finance in light of any known or potential changes.

The projected balances currently reflect known contributions and known withdraws from the reserve. However if any future "rent event" linked to rent reviews or voids results in a cost then there will be higher use of the reserve.

A4.5 <u>Insurance Reserve</u>

The balance as at March 2019 for the insurance reserve was £3.0 million. The Council's insurance manager in consultation with the Head of Finance reviews the earmarked amounts on an annual basis and takes advice from an insurance actuary to ensure the adequacy of the reserves.

The Council currently has a strong low risk profile based on its claims history however this could be adversely affected if the Council incurs a number of higher cost claims. Given the potential long lead in time for certain insurance claims, such as those relating to social care and certain types of industrial diseases, any shortfall in this reserve may not be realised for a number of years. This reserve will require careful monitoring of the impact of future liabilities on a regular basis.

A new insurance risk arising from the purchase of investment properties is to ensure that these properties are adequately covered. This cost under the lease is met by the tenants. Insurance related risks for the Council companies such as TDA and the Housing companies are funded by those companies.

A5 <u>Review of Provisions, other Potential Liabilities and potential risk from Council Companies</u>

All companies owned by the Council are ultimately part of the Council's overall (consolidated) financial position and as CIPFA states that "the statutory role of the CFO does not stop at the boundaries of the local authority but extends into its partnerships, devolved arrangements, joint ventures and companies in which the authority has an interest".

The TDA, 100% owned by the Council, has now established a trading subsidiary Complete Cleaning Solutions Limited and has established or purchased further companies including a housing company (Tor Vista), Kings Ash Holdings and CASE consultancy.

New companies have been establish for some education services and a new company (SWISCO) for the re provision of services currently provided by TOR2.

As the number of council subsidiary companies and the range of activities they undertake expand, as these companies are owned by the Council therefore the Council must ensure it reviews the Company's performance.

In addition to earmarked and general reserves the Council also holds provisions, where appropriate, for issues where the Council has a clear liability which is likely to result in a payment but the amount and timing of the potential payment is uncertain. The council also holds provisions for future issues mostly in relation to insurance claims where the "time lag" on claims being notified and settled is often over one year and a provision for NNDR appeals. The Council gains or loses a 49% share of any movements in NNDR.

A6 Collection Fund

The Collection Fund Adjustment Account (formally Collection Fund Reserve) is slightly different from all other reserves and includes both Council Tax and NNDR. For Council Tax, legislation requires any balance (surplus or deficit) to be applied at the next Council Tax setting to the three major precepting authorities (Torbay, Devon & Cornwall Police Authority and Devon and Somerset Fire Authority). (Note Brixham Town Council as a minor precepting body does not bear any share of surplus or deficit).

For NNDR, as a result of the introduction of the new Local Government funding arrangements from April 2013, the Council bears a 49% share of the risk and reward of changes in the level of National Non Domestic Rate income. Changes from the Council's initial National Non Domestic Rate income estimate arising from changes in yield and collection will now also result in a Collection Fund surplus or deficit. The Council's share of any surplus or deficit will impact on the forthcoming year. The Council holds a NNDR equalisation reserve to help smooth the volatility of income, set at 5% of the Council's annual NNDR retained income under a 49% retention scheme.

Estimates of future year surpluses or deficits are included in the Budget Setting process and reflected in the Medium Term Resource Plan.

A7 Pensions and Loans (Non Treasury Investments)

Pensions: The Council has provided a number of guarantees in respect of pensions when staff have transferred from the Council's employment to an alternative supplier who has set up a LGPS pension scheme as an "admitted body". These are not guarantees to the supplier but to the pension fund in the event of the insolvency of the supplier. In the exceptional case of the pension liability being realised it is likely the liability will be transferred to the Council's own pension liability which will be reflected in future employer contribution rates. As such, under accounting standards (IFRS), these are accounted for as insurance contracts.

Loans: The Council has provided a number of loans to the private sector and to it subsidiary companies. If a loan defaults or under the "expected loss" model of assessing the fair value of a loan then the loss will be charged to the council's revenue budget in the year the loss is recognised. The value of the Council loans is now significant – including £1.4m TDA, £9m to That Group for Torwood Street and £4m to South Devon College. At year end the Chief Finance Officer will assess each loan for actual or potential "expected losses" and will make a charge to revenue in year or set aside funds as a "bad debt" provision as required.

Investment Properties: The Council has purchased a number of investment properties. Risk and reserve management of these is discussed above.

A8 General Fund Reserve -Risk Assessment and Sensitivity/Scenario Appraisal

The Councils General Fund Reserves of £4.6 million represents 4.1% of the Council's net 2019/20 budget. This level of "unallocated financial reserves" is low compared to other unitary Councils and less than the 2019/20 in year variation in children's social care.

The CIPFA guidance on reserves does not recommend a minimum level of reserves. It states that "Local Authorities should make their own judgments on such matters taking into account all the relevant local circumstances which will vary between Authorities". CIPFA also state that "a well-managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of reserves".

A risk assessment of all 2019/20 budgets suggest that the maximum overspend in any year, if all services were subject to adverse pressures and where there isn't any specific service related earmarked reserve, would be £10.9m million or 9% of 2020/21 draft net revenue budget. An estimate should be added to reflect any, as yet unknown, in year budget pressures, potential Bellwin scheme claims (emergency planning),to reflect the financial risks inherent in any significant new partnerships such as Housing Company and TOR2 re provision, investments, funding changes, outsourcing or capital developments, say £1.0 million. This would result in a required General Fund reserve of £11.9 million or 10% of net budget. The current level of General Fund Reserve will cover just under 40% of this sum.

The risk above has been mitigated as the council is expecting to have a fixed payment to for Adult Social care in 2020/21. This fixed payment does remove volatility from the largest budget/service the Council has. However if this fixed payment does not exist, say after the contract period, then the Council will again be exposed to the risk of volatility of both demand and cost in this key service In addition the challenges of achieving the ongoing significant budget reductions from central government create a major risk of budget variations.

A prudent risk based approach to budget setting and reserve levels will have mitigated some risks of an overspend, although it should be noted that in areas of high risk such as, Children's Social Care, have already declared significant budget pressures over the past few years. It is vital that the improvement plan and medium tern financial strategy for this service is delivered to reduce the levels of (financial) risk around this service. The 2020/21 Partnership's draft budget proposals include an additional £9.8m additional funds for this service which will help mitigate risks of a significant overspend.

However it is unlikely that all budgets will be adversely affected in the same year or that there will be no under spending arising from savings or additional income. Therefore the General Fund Reserve should be equal to 50% of the total assessed risk in any financial year (which equals to 5.1% of estimated 2020/21 net revenue budget). This for 2020/21 will result in a required general fund reserve balance of £5.9 million. At this stage the current general fund balance of £4.6 million is below that assessed target.

The 2020/21 budget to be presented in February 2020 to Members will also include an assurance statement from the Head of Finance about the adequacy of the proposed financial reserves, in accordance with the requirements of section 25 of the Local Government Act 2003.

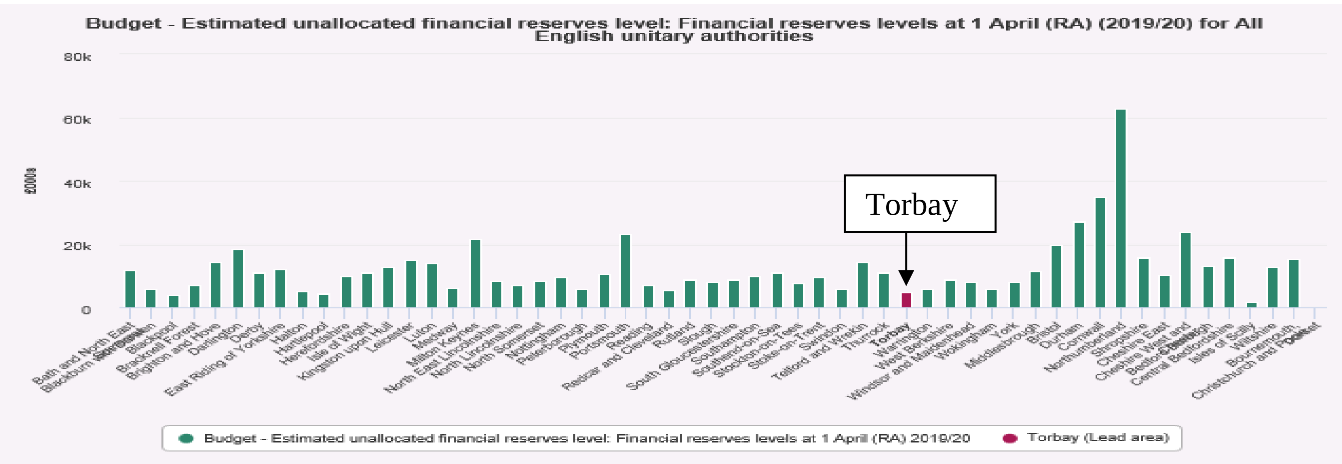
A9 **Capital Investment Plan**

It is assumed that in the circumstances of a significant overspend within the Council's capital programme this will be covered by alterations to the timing of the Council's capital investment plan; use of the capital contingency or from additional borrowing within the Council's approved Prudential Indicators. Any additional borrowing costs would have to be met from the Council's revenue budget.

The Council's capital plan has a contingency of £0.6 million. It should be noted that all capital projects should have contingencies within the individual project costs.

A10 **Comparison with Other Councils:**

The Local Government Association holds statistical data for all Councils. This includes an indicator of the "unallocated reserves balances" for unitary councils. Torbay's general fund reserve can be seen as low.



A11 **Governance of Reserves.**

Appendix 1 shows the projected balances of the reserves at the end of the current financial year and future years. These balances are based upon planned levels of spending. In the event of any unplanned expenditure occurring in the financial year current Standing Orders and Financial Regulations will apply.

The Reserves will continue to be reported as part of the Council's Statement of Accounts and subject to this annual review and challenge as part of the budget process by both members and senior officers. Councillors should consider the Council's General Fund Reserve as part of the annual budget setting process. Any quarterly reporting of issues relevant to earmarked reserves will be on an exception basis.

Schools reserves are part of the delegated schools funding and these reserves remain at the discretion of the Head Teachers and Governing Bodies.

A12 Risk assessment of preferred option

Outline of significant key risks

It is important that the issues raised in this report are considered by Members and appropriate action is taken, where necessary, to ensure that the Council has adequate reserves in the short and medium term. Failure to consider the issues raised within this report and take appropriate action could result in the Council having insufficient reserves that could adversely impact on the revenue budget and the longer term financial viability of the Council.

The major risks facing the Council at present are the uncertainty of the Council's future funding from 2021/22 onwards and the ongoing financial pressures from both Children's social care and, in the longer term, adults' social care.

As a guide to higher costs in the longer term from changes in demand from the demographic profile of Torbay, the following table shows the ONS estimated population changes in Torbay over the next 10 years.

Age Group	2020 000's	2025 000's	2030 000's	10 year Change 000's	10 year Change %
Up to 4	7	7	7	0	0
5 to 17	22	23	23	1	5
18 to 64	71	71	69	(2)	(3)
65 to 79	27	28	30	3	11
80 and over	10	12	15	5	50
Total Population	**137**	**141**	**144**	**7**	**5**

The table shows that there is likely to be decline in the working age population over 10 years with increases on both school age and over 65's. It is the rise in over 65's and within that the increase in the over 80 population that is likely to result in significantly higher social care costs in the longer term. It is essential that the Council has a long term plan for these future demand changes.

It is important for the Council to review its risks and rewards in relation to new activities, such as Investment properties and its interests in its companies if the level of activity in those companies changes. Companies include the TDA and its subsidiary companies, "SWISCO" and Housing companies.

Appendices

Appendix 1 Review of Reserves 2020/21
Appendix 2 Summary of Council Reserves

Reserves	**Balance as at at 1/4/19 £'000**	**Balance as at at 1/4/20 £'000**	**Balance as at at 1/4/21 £'000**	**Balance as at at 1/4/22 £'000**	**Balance as at at 1/4/23 £'000**
General Reserves					
General Fund	-4,623	-4,623	-4,623	-4,623	-4,623
Total General Reserves	**-4,623**	**-4,623**	**-4,623**	**-4,623**	**-4,623**
Earmarked Reserves					
Comprehensive Spending Review					
Comprehensive Spending Review	-4,945	-2,134	-1,989	-3,064	-4,139
	-4,945	**-2,134**	**-1,989**	**-3,064**	**-4,139**
Capital Reserves:					
Capital Funding Reserve	-1,628	-2,093	-518	-268	0
IT Equipment Reserve	-1,798	0	0	0	0
	-3,426	**-2,093**	**-518**	**-268**	**0**
School Related Reserves					
Dedicated Schools Grant	2,655	3,655	4,693	5,358	5,358
Schools Exit Packages	-150	-112	-84	-63	-47
School Balances	-871	-766	-689	-620	-558
	1,635	**2,777**	**3,919**	**4,675**	**4,753**
Partner/Ring Fenced Reserves					
Adult Social Care	-914	-1,258	-56	0	0
Devon Audit Partnership	-24	-24	-24	-24	-24
TDA Reserves	-146	-146	-146	-146	-146
Harbours Reserves	-741	-532	-406	-352	-319
Public Health Reserve	-1,447	-1,005	-779	-536	-442
Museum Reserve	-25	-25	-25	-25	-25
Swimming Pool Reserve	-50	-40	-30	-20	-10
Salix Fund	-97	-129	-175	-219	-228
EU Exit Funding	-105	-315	-315	-315	-315
	-3,548	-3,474	-1,956	-1,637	-1,508
Specific issues					
Council Elections	-235	0	-63	-125	-188
Crisis Support Reserve	-564	-464	-364	-264	-164
Growth Fund	-3	0	0	0	0
Equipment Reserves	-199	-199	-199	-199	-199
Geopark	-36	-26	-16	-6	0
Green Travel Plan	-106	-106	-106	-106	-106
Highway Reserves	-384	-340	-300	-275	-250
Housing First	-518	-259	0	0	0
Housing Benefit	-475	-475	-475	-475	-475
Insurance Reserves	-3,049	-3,019	-2,989	-2,959	-2,929
NNDR Collection Fund	-1,307	-480	-480	-480	-480
Office Accommodation Reserve	-249	0	0	0	0
Oldway Mansion Reserve	-258	0	0	0	0
Planning Reserve	-298	-209	-69	0	0
PFI Sinking Fund	-791	-663	-299	0	0
Regeneration Reserve	-227	-27	-27	-27	-27
Town Centre Regeneration	-167	-75	-32	-5	-5
Section 106	-35	0	0	0	0
Service Carry Forwards	-1,082	-420	-297	-266	-257
Tourism	-12	0	0	0	0
Transformation Reserve	-252	-126	0	0	0
Waste Strategy	-446	-10	0	0	0
	-10,695	**-6,900**	**-5,717**	**-5,189**	**-5,082**

Investment Fund					
Investment Fund	-1,804	-2,093	-2,923	-3,759	-4,840
	-1,804	**-2,093**	**-2,923**	**-3,759**	**-4,840**
Grants - received not spent					
Grants - received not spent	-5,549	-2,776	-950	-597	-577
	-5,549	**-2,776**	**-950**	**-597**	**-577**
Total Earmarked Reserves	**-28,330**	**-16,693**	**-10,134**	**-9,839**	**-11,393**
TOTAL RESERVES	**-32,953**	**-21,316**	**-14,757**	**-14,462**	**-16,015**

Name of Earmarked Reserve	Description of Reserve	Responsible Officer
Comprehensive Spending Review		
Comprehensive Spending Review Reserve	To fund costs associated with meeting budget reductions as a result of the Government's comprehensive spending review.	Martin Phillips Head of Finance
Capital Reserves		
Capital Funding	To reserve funding for items in the approved Capital Plan Budget.	Martin Phillips Head of Finance
IT Equipment Reserve	To provide funds for priority driven replacements of IT equipment. Reserve to fund costs of the purchase of a replacement case management system for children's social care	Matt Fairclough-Kay Interim Head of IT
School Related Reserves		
Dedicated Schools Grant	Reserve to reflect the position on the ring fenced dedicated school grant – currently negative balance pending recovery plans.	Nancy Meehan Director of Children's Services
Schools Exit Packages	Reserve to support the costs of redundancies for schools based staff	Rachael Williams Head of Education
School Balances	Reflects the carry forward by schools of their delegated school budget share.	Rachael Williams Head of Education
Partner/ Ring Fenced Reserves		
Adult Social Care	Reserve for any adult social care funding to be used to support adult social care	Jo Williams Interim Director of Adult Social Care
Regeneration/TDA Reserve	Reflects the value of funds awarded to the TDA where the work has yet to be completed.	Kevin Mowat Director for Place
Harbours	Torquay, Paignton and Brixham Harbours – To finance Harbour expenditure schemes for the purpose of Harbour Users.	Kevin Mowat Director for Place
Public Health	Reflects carry forward of ring fenced funds for Public Health	Caroline Dimond Director Public Health
Museum Reserve		
Swimming Pool Reserve	Reserve established as part of 2018/198 budget proposals to support unplanned expenditure or income variances for community run internal swimming pools.	Kevin Mowat Director for Place

Specific Issues		
Crisis Fund	Reserve to support the costs of social fund and exceptional hardship	Tara Harris Executive Head Community Services
Employment (Growth Fund) Reserve	Reserve established from the New Homes Bonus grant to create a Growth Fund to support employment opportunities.	Kevin Mowat Director for Place
Equipment Fund	To facilitate renewal of equipment within services where the replacement is at irregular periods.	Various
Geo Park Conference	To support costs of Geo Park activities	Kevin Mowat Director for Place
Highways Reserves	Reserve holding funds received under Highways Acts and other legislation where the Council holds funds to do works.	Ian Jones Head of Highways
Housing Benefit Subsidy	Reserve to mitigate variations to the Council's housing benefit subsidy	Tara Harris Executive Head Community Services
Insurance Reserve	To set aside amounts to cover the future cost of past uninsured events which result in a loss to the Council. This reserve covers potential future liabilities arising from the Council's previous insurers Municipal Mutual Insurance Ltd not having sufficient solvency, to meet pre 1998 claims from Devon County Council, amounts for specific uninsured risks and a general reserve to meet as yet unknown insurance claims	Anne-Marie Bond Director Corporate Services
NNDR Equalisation Reserve	Reserve to smooth the volatility of NNDR income including appeals, s31 grant and the performance of the Devon wide NNDR pool.	Martin Phillips Head of Finance
Office Accommodation Reserve	Reserve to help meet the short term revenue costs of the rationalisation of office accommodation.	Kevin Mowat Director for Place
Oldway Mansion Reserve	Reserve funded from the developer contribution to be used for the benefit of the Mansion.	Kevin Mowat Director for Place
Planning Reserve	To provide for costs of Local Plan Inquiry held every 4/5 years and Masterplan delivery.	Kevin Mowat Director for Place
PFI Sinking Fund	To provide funds to meet the liabilities under the PFI agreement over 25 years (The Spires and Homelands Schools) and to provide funding towards Paignton Community College expansion project.	Nancy Meehan Director of Children's Services
Regeneration Reserve	A reserve to support economic regeneration and employment initiatives	Kevin Mowat Director for Place
Town Centre Regeneration	Reserve established to fund the staffing and feasibility costs associated with the Town Centre Regeneration project	Kevin Mowat Director for Place
Service Carry Forwards	Balance of any Service specific Carry Forward of budget	Martin Phillips Head of Finance
Tourism (Strategic Events) Reserve	Reserve established in 2012/13 to support tourism and events.	Kevin Mowat Director for Place

Transformation Reserve	Reserve to support expenditure on projects associated with the Council's transformation programme.	Anne-Marie Bond Director Corporate Services
Waste Disposal Strategy Reserve	Reflects the reclassification of part of the equipment fund as a specific reserve for Waste Disposal Initiatives.	Kevin Mowat Director for Place
Investment Fund		
Investment Fund Reserve	Reserve to mitigate any variations in income or costs associated with Investment Fund properties such as void and rent free periods	Kevin Mowat Director for Place
Grants – received but not spent		
Grants recognised but not used	Reflects the value of revenue grants (without conditions) received by 31st March but not yet used to support expenditure	Martin Phillips Head of Finance
Miscellaneous		
Misc. Specific Reserves	Includes: Council Elections, Devon Audit Partnership, Green Travel Plan. Museums and Salix (energy initiatives).	Various

Meeting: Cabinet — Date: 4 February 2020

Council — Date: 6 February 2020

Wards Affected: All

Report Title: Capital Plan 2020/21

Is the decision a key decision? Yes

When does the decision need to be implemented?

Cabinet Member Contact Details: **Darren Cowell,** Cabinet Lead for Finance, darren.cowell@torbay.gov.uk

Supporting Officer Contact Details: Martin Phillips, Head of Finance, martin.phillips@torbay.gov.uk

---

1. Proposal and Introduction

1.1 Torbay Council's Capital Plan totals £394 million for the 4 year programme to 31 March 2023 with £125 million scheduled to have been spent in 2019/2020 and £143 million due to be spent in 2020/21. The Council's Capital Plan is updated on a quarterly basis as new funding announcements and allocations are made.

1.2 The attached document provides high-level information on the proposed capital expenditure and funding for 2020/2021 and is part of the total Plan. Shown against the targeted actions of the Council's Corporate Plan, it gives details of the capital schemes which have previously been approved by the Council. However, in some cases, it sets out funding which has been allocated to services but where specific schemes have not yet identified.

2. Reason for Proposal

2.1 To enable the Council to agree its Capital Expenditure for the 2020/21 financial year as required by the Constitution.

3. Recommendation(s) / Proposed Decision

3.1 That the Capital Plan for 2020/21 as set out in Appendix 1 to the submitted report be approved.

Appendices

Appendix 1: Proposed Capital Plan for 2020/21

Capital Plan Budget 2020/21

Torbay Council's Capital Plan totals £394 million for the 4 year programme to 31 March 2023 with £125 million scheduled to be spent in 2019/20 and £143 million due to be spent in 2020/21[1].

This document provides high-level information on the proposed capital expenditure and funding for 2020/21 and is part of the total Plan. Shown against the targeted actions of the Council's Corporate Plan, it gives details of the capital schemes which have previously been approved by the Council. However, in some cases, it sets out funding which has been allocated to services but where specific schemes have not yet been identified.

In accordance with Torbay Council's Constitution, the figures presented will form the approved capital budget for the coming year. The figures are currently based on the Quarter 3 2019/20 capital monitoring information and will form the basis of the 2020/21 Capital Budget.

	£m	%
Thriving People and Communities	44.393	31
Thriving Economy	30.359	21
A Climate fit for the Future	1.614	1
A Council fit for the Future	2,134	1
Investment Fund	65.000	46
Total Capital Expenditure 2020/21	**143.500**	**100**

Details of how the Council is intending to fund the expenditure in the capital plan is as follows:

	£m	%
Prudential Borrowing	127.104	89
Capital Grants	11.315	7
Capital Contributions	0.726	1
Revenue Contributions	0.043	0
Use of Reserves	1.844	1
Capital Receipts	2.468	2
Total Capital Funding	**143.500**	**100**

[1] Capital Plan – Draft Quarter 3 Monitoring Report - (Council, January 2020)

Targeted Action 1: Thriving People and Communities

Scheme Name	Description	Latest Approval	Total Estimated Scheme Cost £000	2020/21 Budget £000
Barton Academy – Nursery provision	A specific grant from DfE to provide nursery facilities at Barton Academy. The Academy trust will also contribute funds to the scheme.	Cabinet - January 2020	527	527
Brunel Academy	Phase 2 of development at Brookfield site/Brunel academy to create Vocational Classrooms.	Council – 24 Sept 2015 Updated Council - 20 Sept 18	1,000	400
Paignton Community & Sports Academy	Expansion to provide additional Secondary School places in Paignton	Council – 31 January 2019	879	374
Special Provision Fund	A specific grant to make capital investments in provision for pupils with special educational needs and disabilities.	Council – 13 September 2017	849	167
Torbay School Relocation	The Council agreed the reallocation of £3m previously allocated to Children's Services for the relocation of Torbay School. The decision was subsequently made to relocate Torbay School from its present site at Torquay Road, Paignton to the MyPlace facility in Paignton in order to better meet the needs of the young people attending this Special School. This decision was later overturned when planning permission was refused. Subsequently part of the original budget has been reallocated to other Childrens Services projects	Council – 26 February 2015 Chief Executive – 8 July 2016 Council – 10 May 2017	1,200	700
IT Childrens Case Management System	IT System to replace current Children's Social Care case management system (PARIS).	Council – 21 Feb 2019	1,000	825
Affordable Housing	This is the capital resource set aside for affordable housing awaiting allocation to specific schemes. This is mainly funded from Right to Buy receipts, Section 106 contributions and housing grants. The Council agreed that these resources should be ringfenced for affordable housing. Some has been allocated to proposed scheme at Crossways	Council – October 2016	1,164	1,163
Crossways, Paignton	Proposals for mixed use development to include extra care and affordable housing	Council – 26 Sept 2019	22,359	13,637
Disabled Facilities Grants	Residual balance of 2019/20 DFG allocation	n/a	n/a	750
Extra Care Housing	Development of extra care units at Torre Marine	Record of Decision – 1 March 2019	2,250	850
Torbay Housing Company Loan	To facilitate the work of the Housing Rental Company, in the form of a loan for a capital purpose	Council 20 July 2017	25,000	25,000
Sub-total				**44,393**

Targeted Action 2: Thriving Economy

Scheme Name	Description	Latest Approval	Total Estimated Scheme Cost £000	2020/21 Budget £000
Babbacombe Beach Road	Improvements to road access to Babbacombe Beach		260	250
Better Bus Areas	Residual funds to improve bus facilities in the Bay	Council – 31 January 2019	1,183	73
Claylands Redevelopment	Council-owned land at Claylands will be redeveloped using a combination of Council and Heart of the South West Local Enterprise Partnership funding. When fully developed the site will support approximately 350-400 jobs and will support the growth of the business rate base.	Council – 10 December 2015 **Updated at Council – 19 October 2017**	10,400	6,748
Clennon Valley Sports Improvements	Scheme to improve drainage at sports pitches on Clennon Valley	Council – 27 October 2016	70	38
Edginswell Business Park	To purchase and develop for regeneration land at Edginswell.	Council 22 June 2017	6,620	3,500
Flood Defence Schemes	This budget represents resources for flood alleviation work largely funded by Environment Agency at Cockington and Monksbridge	Council – 27 September 2012	740	483
Innovation Centre - EPIC	Hi –tech Innovation Centre office and clean room space for electronics and photonics sector start-up businesses.	Council – 26 February 2015	7,749	175
Paignton Coastal Defence Scheme	Scheme to provide additional protection against sea inundation in low lying areas of Paignton and Preston	Cabinet – January 2020	3,142	280
Princess Pier Structural repairs	Structural repairs to the superstructure alongside potential substructure repairs partly funded by the Environment Agency.	Council – 1 February 2012 **Updated Council 13 September 2017**	1,665	750
RICC Improvements	To improve facilities and refurbish the RICC to facilitate new management agreement	Council - 18 July 2019	2,149	2,149
South Devon Highway	The scheme is substantially complete but there are still other costs to be determined (including compensation claims) before the final cost of this major infrastructure improvement is known.	Council – 13 February 2008	20,224	1,330
Transport - Integrated Transport Schemes	Grant allocations from the Department for Transport for 2015/2016-2020/2021. The allocations are linked to the value of the planned maintenance backlog on the road network. The Council agreed to allocate these resources in line with Government intentions.	Council – 26 February 2015 **Updated at Council – 13 September 2017**	n/a	612
Roads Structural Maintenance			n/a	1,424
TEDC Capital Loans	Capital loans to fund TEDC capital projects	Council – 26 February 2015 Council – 18 December 2018	4,040	575
Torbay Community Partnership	Funding (Shelters for Posterity) to Partnership to renovate public shelters on Preston and Paignton seafronts	OSB - 10 July 2019 Outturn report 2018/19	50	30

Scheme Name	Description	Latest Approval	Total Estimated Scheme Cost £000	2020/21 Budget £000
Torre Valley North Enhancements	Improvements to facilities at Playing Fields	Council – 27 February 2014	127	87
Torquay Gateway Road Improvements	The Council successfully submitted a bid to the Local Transport Board for improvements at Torquay Gateway. The Government subsequently confirmed its funding to the Local Transport Board to support this scheme with the Council approving a contribution to the scheme.	Council – 27 September 2014	2,927	1,550
Regeneration Projects	Council received a report in October 2017 proposing to borrow £25 million to support Town centre Regeneration. Increased budget to facilitate acquisition of Retail Opportunity. Council agreed additional £100m Torbay Economic Growth Fund allocation to fund further regeneration	Council 19th October 2017 Council Council 18th July 2019	25,015 17,080 100,000	9,405 700
Western Corridor Improvements	The Council successfully submitted a bid to the Local Transport Board for improvements to the Western Corridor. The Government subsequently confirmed its funding to the Local Transport Board to support this scheme with the Council approving a contribution to the scheme.	Council – 27 September 2014	12,271	200
Sub-total				**30,359**

Targeted Action 3: A climate fit for the future

Scheme Name	Description	Latest Approval	Total Estimated Scheme Cost £000	2020/21 Budget £000
Council Fleet Vehicles	Acquisition for replacement refuse vehicles.	Council – 31 January 2019	4,771	1,614
Sub-total				**1,614**

Targeted Action 4: A Council fit for the future

Scheme Name	Description	Latest Approval	Total Estimated Scheme Cost £000	2020/21 Budget £000
Corporate IT Developments	Provide improved corporate IT infrastructure and equipment to aid efficiency	Council – 21 February 2019	1,801	642
IT Equipment – TOR2	Improved IT provision to enable efficiency gains following termination of TOR2 contract	Council – 21 February 2019	150	50
Essential Capital Repair Works	Balance of a budget to fund essential capital repair works over four years. The Executive Head – Business Services is authorised to make allocations from this fund to specific schemes.	Council – 25 February 2016	876	811
General Capital Contingency	This is capital provision which is set aside to cover urgent, unavoidable additional capital costs where alternative funding is unavailable. This is	n/a	631	631

	approximately 0.5% of the current four year capital plan. It should be noted that all capital projects should have contingencies within the individual project costs.			
Sub-total				**2,134**

Investment Fund

Scheme Name	**Description**	**Latest Approval**	**Total Estimated Scheme Cost £000**	**2020/21 Budget £000**
Investment Fund	This fund is provided to enable the Council to acquire properties. In addition, the fund will be used to increase the Council's business tax base by investing capital resources within Torbay to stimulate growth. Fund increased to £200 million. Purchases included in capital plan when purchased.	Council – 22 September 2016 Council – 8 August 2017	200,200	
	Increased budget to enable further acquisitions	Council -18 July 2019	100,000	65,000
Sub-total				**65,000**

Meeting: Adjourned Council **Date:** 13th February 2020

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Strategy 2020/21 (incorporating the Annual Investment Strategy 2020/21 and the Minimum Revenue Provision Policy 2020/21)

Is the decision a key decision? Yes

Executive Lead Contact Details: Councillor Darren Cowell, Cabinet Member for Finance, Darren.Cowell@torbay.gov.uk

Supporting Officer Contact Details: Pete Truman, Principal Accountant, pete.truman@torbay.gov.uk

1. Proposal and Introduction

1.1 The Treasury Management Strategy appended to this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2020/21 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.

2. Reason for Proposal

2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management which was adopted by the Council on 7th February 2019.

2.2 The approval of an Annual Investment Strategy by Council is a requirement of MHCLG Guidance on Local Government Investments issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. This Strategy sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.

2.3 In addition, the Treasury Management Strategy gives regard to the CIFPA Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

2.4 Under MHCLG regulations the Council is required to approve a Minimum Revenue Provision (MRP) Statement in advance of each year.

3. Recommendations

3.1 That Council approve:

- **the Treasury Management Strategy for 2020/21 (incorporating the Annual Investment Strategy 2020/21);**
- **the Prudential Indicators 2020/21; and**
- **the Annual Minimum Revenue Provision Policy Statement for 2020/21**

as set out in the Appendix to this report.

4. Treasury Management Strategy

4.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

4.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

4.3 Currently the Council's approved capital plan has a borrowing requirement of approx. £255 million which will have a significant impact on the Treasury Management function in the short and medium term. In addition the timing of this borrowing is currently very uncertain which makes planning difficult. It should be noted that this report is based on the Council's approved capital plan as at Quarter Three of 2019/20.

5. Prudential and Treasury Indicators

5.1 The Prudential and Treasury Management Codes require local authorities to set measurement indicators for approval to ensure plans are prudent and affordable. The proposed indicators for 2020/21 are set out in Appendix 1 to the Treasury Management Strategy.

6. Minimum Revenue Provision (MRP) policy statement

6.1 The Council is required to set aside an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision (MRP)). The policy has been updated in line with the new Prudential Code.

6.2 MRP calculations exclude the impact of capital schemes approved but not commenced.

6.3 The recommended MRP Policy for 2020/21 is set out at Appendix 2 to the Treasury Management Strategy and will be applicable from date of approval.

Appendices

Appendix 1 Treasury Management Strategy 2020/21

January 2020

Treasury Management Strategy 2020/21

incorporating the Annual Investment Strategy and the Minimum Revenue Provision Policy

Torbay Council

Contents

1 Introduction

The Council defines its treasury management activities as:

> *"The management of the authority's borrowing, investments and cash flows, it's banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

The Strategy for 2020/21 covers two main areas:

- Treasury management issues
  - the core funds and expected investment balances
  - prospects for interest rates;
  - the borrowing strategy;
  - the investment strategy;
  - policy on use of external service providers;
  - reporting arrangements and management evaluation
  - other matters
  - treasury indicators which limit the treasury risk and activities of the Council;

- Capital issues
  - the capital plan and the prudential indicators;
  - the minimum revenue provision (MRP) policy.

2 Capital

The Council's capital expenditure plans are the key driver of treasury management activity and the output of the capital expenditure plans is reflected in the prudential indicators required by the Prudential Code.

The prudential indicators for 2020/21 and future years are detailed for approval by Council within Appendix 1 and headlined below (based on quarter 3 figures).

£m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Expenditure	125	143	74	51
Net Borrowing Need	106	127	63	50
Capital Financing Requirement	422	542	596	635
Total Gross Borrowing at end of year	393	389	385	380

3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

The table below includes the impact of the approved capital plan (as at quarter three 2019/20) which shows a future borrowing requirement of £255 million (£88m Investment Fund) by 2022/23, but makes no assumption at this stage on the timing or level of the borrowing required

	2019/20 estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Reserves	20	13	13	15
Capital Funding	10	10	5	5
Provisions	4	4	2	2
Other	(7)	(7)	(7)	(7)
Total "core" funds	**27**	**20**	**13**	**15**
Working capital*	15	15	15	15
Total (under)/over borrowing	(30)	(153)	(210)	(255)
Expected cash position	**12**	**(118)**	**(182)**	**(225)**

Working capital balances shown are estimated year end; these may be higher mid-year

In addition any slippage on the capital plan will both increase the cash figure and reduce the under borrowing figure.

Memorandum: (Under)/Over Borrowing	Note	2019/20 estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
- Investment Fund	1	(23)	(88)	(88)	(88)
- Other	2	(7)	(65)	(122)	(167)
Total		**(30)**	**(153)**	**(210)**	**(255)**

Notes

1. The approved Investment Fund of £300million has already been substantially applied to various commercial investments including retail units in Torquay and Dorset, office accommodation in Exeter and Gloucester, a distribution centre in Kent and a cinema in Taunton. The outstanding balance of £88m represents the amount of the Fund which has not yet been borrowed for as at 31st December 2019.

2. Other schemes relates to non-Investment Fund items within the approved Capital Plan that, when progressed, will require borrowing including housing initiatives, regeneration, Harbour View car park development, etc.

4 Prospects for Interest Rates

The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view (at December 2020).

Link Asset Services Interest Rate View	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

PWLB rates are quoted at the discounted Certainty Rate which Torbay Council is eligible for.

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit, then there is upside potential for earnings.
- Borrowing interest rates (PWLB) were on a major falling trend during the first half of 2019-20 but then jumped up by 100 bps on 9.10.19 following a government decision. However, the unexpected increase of 100 bps in PWLB rates has required a major review of local authority treasury management strategy and risk management.

There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

This outlook continues to support a policy of restricting new borrowing and running down spare cash balances (Internal borrowing) to reduce net financing costs. However, this policy will need to be carefully monitored to avoid delaying borrowing to a point where rates are significantly higher than the current forecast affordable levels.

5 Borrowing

The current borrowing position

The Council's borrowing portfolio position with forward projections (excluding new borrowing) is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement (CFR)), highlighting any over or under borrowing.

£m	2018/19 Actual	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt at 1 April	273	303	375	371	368
Change in Debt	30	72	(4)	(3)	(4)
Other long-term liabilities – School PFI	6	6	6	5	4
Other long-term liabilities – EFW PFI	12	12	12	12	12
Actual gross debt at 31 March	**321**	**393**	**389**	**385**	**380**
The Capital Financing Requirement	**321**	**422**	**542**	**596**	**635**
(Under) / over borrowing	0	(29)	(153)	(211)	(255)

The forecasts above, based on the quarter three 2019/20 capital monitoring report, shows the Council's capital financing requirement (including PFI liabilities) rising to £635m (£300m Investment Fund) by the end of 2022/23 of which £255m is yet to be borrowed (£88m Investment Fund). This total could increase if Council approve any additional schemes to be funded from borrowing such as for new regeneration opportunities.

The Borrowing Strategy

The Council is currently maintaining an under-borrowed position, in line with the current strategy. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

The current level of under-borrowing is exaggerated by a partial suspension of new borrowing following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to local authorities. This immediately raised the rates payable by the Council by one per cent.

In light of this decision, alternative borrowing options are being considered, including:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of spot or forward dates)
- Municipal Bonds Agency (no issuance at present but there is potential)

The evaluation process is likely to be concluded after submission of this Strategy document. Until then the Chief Officer is limiting new PWLB borrowing to 50% of Investment Fund transactions; this to ensure sufficient liquidity and act as protection against market lenders declining funding for commercial activities or applying a premium to the rate. Funding in the interim period will be from existing cash resources or temporary, short term borrowing from the market.

The degree to which any of these options proves cheaper than PWLB Certainty Rate is still evolving at the time of writing but with the impact of potential fees and resourcing issues there could be a case that the PWLB will remain the optimum lending source.

Should the profile of capital spend change from that reported above, the in-year treasury strategy will be updated and borrowing decisions expedited by the Chief Finance Officer under delegated powers.

It is proposed that the Council generally maintain an under borrowed position of around £10million in the longer term, using existing cash resources to temporarily fund capital transactions thereby limiting the additional borrowing cost on the General Fund until income streams are realised. The timing of borrowing will be prompted by cash requirements but the Chief Finance Officer will look to take advantage of market volatility and secure funding at any point where rates fall below the forecast level.

The budget for payment of interest on debt for 2020/21 has been based on an assumed £375m of borrowing as at 31/03/20 with an overall borrowing rate of 3.03% (3.34% in 2019/20).

The Chief Finance Officer has recognised the value in aligning current low borrowing rates to the business cases of specific schemes generating new income streams and this policy is currently being applied to Investment Fund related schemes. Decisions on other schemes will be made on a case by case basis and non-applicable schemes will continue to reflect the Council's average rate of borrowing.

The outlook for interest rates in section 3 recognises the risk of deferring borrowing and exposure to higher borrowing costs. In the event of a significant rise in the outlook for interest rates, the Chief Finance Officer has delegated authority to vary the primary strategy outlined above and take a greater proportion of the borrowing requirement earlier to protect the affordability of capital schemes over the longer term.

The bodies the Council can borrow from are listed in the Schedules to the approved Treasury management Practices which include PWLB, UK Municipal Bonds Agencies and specified financial institutions.

Policy on borrowing in advance of need

The Council will not borrow more than, or in advance of its needs for treasury management purposes, purely in order to profit from the investment of the extra cash sums generated.

Any decision to borrow in advance, linked to forecast interest rates, will be within forward approved CFR estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. No borrowing in advance will be made in relation to any capital project funded from borrowing until individual schemes have been approved by Council and there is a high assumption of spend occurring..

Debt rescheduling

Rescheduling of current borrowing in the debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates imposed on 9th October 2019 only applied to new borrowing rates and not to premature debt repayment rates. The increased disparity between the two sets of rates give rise to excessive penalty calculation for early repayment of loans.

For example repayment of a specimen portfolio loan of £2M with a rate of 4.1% and 20 years to maturity would cost £3.1M on current levels.

Treasury Indicators for limits to borrowing activity are published within Appendix 1 to this report.

6 Annual Investment Strategy

Investment policy

The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. The Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The creditworthiness policy adopted is detailed at Appendix 4.

A decision by the Chief Finance Officer to temporarily remove all Eurozone Banks, regardless of rating, from the approved counterparty list for in-house investments remains in place but does not form part of this policy.

Investment instruments identified for use in the financial year are listed at Appendix 5 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be set within the schedules accompanying the Council's Treasury Management Practices.

Investment strategy

Based on strategic cash flow forecasts £15million of the Council's investments can be regarded as core cash available to be invested over a longer periods in higher risk/return instruments. £5 million of this core cash has been placed with the Local Authorities Property Fund (current yield around 4.82%). A longer term deposit to November 2021 was taken at 1.00% to protect against a possible cut in Bank Rate.

The remaining investment balance will initially be held as liquid as possible to internally fund the capital borrowing requirement discussed in section 4. As such extensive use is expected to be made of the Council's money market funds and notice accounts.

In the event of new borrowing being taken, opportunities will be sought for longer term deposits to enhance returns in line with the static rate forecast, mainly limited to one year maximum to maintain ongoing liquidity requirements.

The overall investment performance will be benchmarked against the 7-Day LIBID market rate and is budgeted at 1.12%

Investment treasury indicators and limits are published within Appendix 1 to this report

Non-Financial Investments Strategy

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments.

The previous sections relate solely to treasury management "cash" investments and the current schedule of non-financial investments is detailed at Appendix 6. All decision have followed appropriate risk management framework and strategy for non-financial investments approved by Council in February 2019.

7 Treasury Management Consultants

Link Asset Services (formerly Capita Asset Services) was reappointed as the Council's external treasury management advisors for three years from February 2016, following a full tender process. The agreement has been extended until 30th April 2020 and a new tender process will be carried out to appoint an advisor beyond this date.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services 0f our external service providers. All decisions will be undertaken with regard to all available information including, but not solely, our treasury advisers.

The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Chief Finance Officer will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments are not covered by the expertise supplied by Link Asset Services and alternative specialist advice for these is obtained through the Torbay Development Agency.

8 Reporting Arrangements and Management Evaluation

Members will receive the following reports for 2020/21 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy
- Mid-Year Treasury Review report
- Annual Treasury Outturn report

The Chief Finance Officer will inform the Cabinet Member for Finance of any long-term borrowing or repayment undertaken or any significant events that may affect the Council's treasury management activities. The CFO will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

The Chief Finance Officer is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit (see Appendix 1). Any such change will be reported to the next meeting of the Council.

The impact of these policies will be reflected as part of the Council's revenue budget and therefore will be reported through the quarterly budget monitoring process.

The Council's management and evaluation arrangements for Treasury Management will be as follows:

- Monthly monitoring report to the Chief Finance Officer, Finance Manager, Leader of the Council, Cabinet Member for Finance and Independent Group Leader.
- Quarterly meeting of the Treasury Manager/ Finance Manager / Chief Finance Officer to review previous quarter performance and plan following period activities
- Regular meetings with the Council's treasury advisors
- Membership and participation in the LINK Investment Benchmarking Club
- The Audit Committee is the body responsible for scrutiny of Treasury Management.

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny and appropriate training was made available to Audit Committee members in June 2019. Further training for all Members will be arranged following appointment of the Treasury Management advisor contract from 1st May 2020.

The training needs of treasury management officers are periodically reviewed.

9 Other Matters

Soft Loans

Accounting for financial instruments require the recognition of soft loans i.e. where a loan is made at a lower than ‘competitive’ rate the cost implicit in achieving the lower rate must be reflected in the Council’s accounts.

Anti-Money Laundering

The Council will comply with all relevant regulations.

IFRS 16 Lease Accounting

The Head of Finance will monitor any implications of the introduction of IRFS9 on financial instruments.

Appendix 1

Prudential & Treasury Management Indicators 2020/21 – 2022/23

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators below, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital Expenditure

The Council's Capital Plan monitoring report for quarter 3 is summarised below for approval by Council as the required prudential indicators for capital expenditure.

Capital expenditure at quarter 3 2019/20 £m	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Services	45	78	74	51
Commercial Activities/non-financial investments	80	65	0	0
Total	125	143	74	51

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of funding resources results in a borrowing need.

Capital expenditure at quarter 3 2019/20 £m	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital receipts	1	2	5	0
Capital grants	14	11	6	1
Capital reserves	1	2	0	0
Capital Contributions	2	1	0	0
Revenue	1	0	0	0
Net financing (Borrowing) need for the year	**106**	**127**	**63**	**50**

The net financing need for commercial activities / non-financial investments included in the above table against expenditure is shown below:

Commercial activities / non-financial investments £m	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Expenditure	80	65	0	0
Percentage of total net financing need	75%	51%	0	0

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes and if applicable finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include the financing of the asset and so the Council is not required to separately borrow for these schemes. The Council currently has £20m of such schemes, mostly PFI schemes, within the CFR.

The CFR projections are detailed below for Council approval.

£m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement				
Total CFR	**422**	**542**	**596**	**635**
Movement in CFR	101	120	54	39
Movement in CFR represented by				
Net financing need for the year (above)	106	127	64	49
Less MRP, VRP and other financing movements	(5)	(7)	(10)	(10)
Movement in CFR	**101**	**120**	**54**	**39**

External Debt

The Operational Boundary

This is the limit beyond which external borrowing and long-term liabilities are not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing and the ability to fund under-borrowing by other cash resources.

Operational boundary £m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Borrowing	450	570	620	645
Long term liabilities	20	20	20	20
Total	470	590	640	665

The Authorised Limit for external borrowing and long-term liabilities.

This is a key prudential indicator and represents a control on the maximum level of borrowing. It represents a legal limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.
This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised Limit £m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Borrowing	500	690	690	690
Other long term liabilities	20	20	20	20
Total	520	710	710	710

A comparison of Gross Debt and the Capital Financing Requirement is also a key indicator of prudence. This indicator is to ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years.

£m	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt at 1 April	303	375	371	368
Change in Debt	72	(4)	(3)	(4)
Other long-term liabilities – School PFI	6	6	5	4
Other long-term liabilities – EFW PFI	12	12	12	12
Gross Debt at 31 March	**393**	**389**	**385**	**380**
Capital Financing Requirement	**422**	**542**	**596**	**635**
(Under) / over borrowing	(29)	(153)	(211)	(255)

Affordability

To assess the affordability of the Council's capital investment plans, the following indicators provide an indication of the impact on the Council's overall finances.

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream For Torbay investment income includes income from investment fund properties and the effect of this is also shown as an additional, local indicator.

£M	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Net Revenue Stream	£111m	£116m	£116m	£116m
Financing Costs Interest Paid & MRP as at 31/03/20 Interest Received Sub Total	 £15m (£1m) £14m	 £21m (£1m) £20m	 £21m (£1m) £20m	 £21m (£1m) £20m
Percentage of Financing Costs to Net Revenue Stream	13%	**17%**	**17%**	**17%**
Financing costs excludes income from Investment Property portfolio which is included within the Net Revenue Stream. *Gross Rental Income (as at Sept 18)*	£(10)m	£(15)m	£(15)m	£(15)m
Percentage of Financing Costs to Net Revenue Stream including Investment Property Gross Rental Income	4%	5%	5%	5%

Each £1m of new debt costs £70,000 per annum. Therefore, borrowing £255m for the under borrowing by 2020/21 would cost approximately £18m per annum in MRP and interest.

Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Maturity structure of fixed interest rate borrowing 2020/21		
	Lower	**Upper**
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	30%
5 years to 10 years	0%	40%
10 years to 20 years	0%	50%
20 years to 30 years	0%	60%
30 years to 40 years	0%	50%
40 years to 50 years	0%	50%

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

Upper limit for principal sums invested for longer than 365 days				
£m	**2019/20**	**2020/21**	**2021/22**	**2021/22**
Principal sums invested for longer than 365 days	£m 20	£m 20	£m 20	£m 20
Current investments (as at 31/12/19) in excess of 1 year	10	10	5	5

Appendix 2
Policy on Minimum Revenue Provision for 2020/21

The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.

The basis for the calculation of the provision is prescribed by legislation (Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2012 and supported by statutory guidance (last issued March 2018), which states that Councils are required to "determine for the current financial year an amount of MRP that it considers to be prudent" and prepare an annual statement on their MRP calculation to their full Council.

One of the aims of this legislation is to ensure that the repayment of principal owed for Capital expenditure is charged on a prudent basis. Central Government guidance says:

> "*the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the Capital expenditure provides benefits"*

For Supported Borrowing, (borrowing funded by central government), the Council will charge MRP at 2% of the balance as at 31 March after the deduction of the value of adjustment A (a set value in 2004), fixed at the same cash value as that of the whole debt is repaid after 50 years.

The Council will charge a VRP (voluntary revenue provision) for the supported borrowing within the adjustment A value that is outstanding as at 31 March relating to transferred debt from Devon County Council fixed at the same cash value as that of the whole debt is repaid after 50 years (which is similar to the supported borrowing calculation).

For capital expenditure funded from unsupported borrowing the Council will make a MRP based on the cumulative expenditure incurred on each asset (including investment fund properties) in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset. (See table on the following page.)

The MRP for each asset will be calculated on the asset life method using an annuity calculation. MRP will be calculated, on the total expenditure on that asset, in the financial year after the asset becomes operational or 12 months after operational or when there is an income stream in relation to that asset.

The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) on an annuity calculation. Where possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.

To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.

Where loans are given for capital purposes they come within the scope of the prudential controls established by the Local Government Act 2003 and the Local Authorities (Finance and Accounting) (England) Regulations 2008.

The Capital Financing Requirement (CFR) will increase by the amount of the loan. Once the funds are returned to the local authority, the returned funds are classed as a capital receipt with those receipts being earmarked specifically to that loan, and the CFR and loan will reduce accordingly. If the expectation is that funds will be repaid in full at some point in the future, there is no requirement to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position of each loan will be reviewed on an annual basis by Chief Finance Officer.

Where expenditure is on an investment fund property a MRP may not be applied where there is a clear decision or realistic expectation that an asset purchased as an investment property will be sold within twelve months where the capital receipts from that sale will be set aside to enable repayment of the borrowing associated with the asset.

Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP statutory guidance issued by DCLG will be used. The latest guidance issued in March 2018 suggests a maximum asset life of 50 years.

Each asset life will be considered in relation to the asset being constructed; however as a guide the following are typical ranges for asset lives that will be used.

Asset Type	**Range of Asset Life**
Freehold Land (speciifed in DCLG statutory gudiance)	50 years
Buildings	20-40 years
Investment Properties	25-50 years
Software	5-10 years
Vehicles & Equipment	5-8 years
Highway Network	25-40 years
Structural Enhancements	10-25 years
Infrastructure	25-50 years

For capital expenditure where land and buildings are not separately identified a blended asset life can be used.

Appendix 3

Economic Summary (as provided by Link Asset Services – December 2020)

It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut Bank Rate. However, if they were both to dissipate, then rates would need to rise at a "gradual pace and to a limited extent". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise Bank Rate.

Bond yields / PWLB rates. There has been much speculation during 2019 that the bond market has gone into a bubble, as evidenced by high bond prices and remarkably low yields. However, given the context that there have been heightened expectations that the US was heading for a recession in 2020, and a general background of a downturn in world economic growth, together with inflation generally at low levels in most countries and expected to remain subdued, conditions are ripe for low bond yields. While inflation targeting by the major central banks has been successful over the last thirty years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last thirty years. We have therefore seen over the last year, many bond yields up to ten years in the Eurozone actually turn negative. In addition, there has, at times, been an inversion of bond yields in the US whereby ten-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated, as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities. However, stock markets are also currently at high levels as some investors have focused on chasing returns in the context of dismal ultra-low interest rates on cash deposits.

During the first half of 2019-20 to 30 September, gilt yields plunged and caused a near halving of longer term PWLB rates to completely unprecedented historic low levels. *(See paragraph 3.7 for comments on the increase in the PWLB rates margin over gilt yields of 100bps introduced on 9.10.19.)* There is though, an expectation that financial markets have gone too far in their fears about the degree of the downturn in US and world growth. If, as expected, the US only suffers a mild downturn in growth, bond markets in the US are likely to sell off and that would be expected to put upward pressure on bond yields, not only in the US, but also in the UK due to a correlation between US treasuries and UK gilts; at various times this correlation has been strong but at other times weak. However, forecasting the timing of this, and how strong the correlation is likely to be, is very difficult to forecast with any degree of confidence. Changes in UK Bank Rate will also impact on gilt yields.

One potential danger that may be lurking in investor minds is that Japan has become mired in a twenty-year bog of failing to get economic growth and inflation up off the floor, despite a combination of massive monetary and fiscal stimulus by both the central bank and government. Investors could be fretting that this condition might become contagious to other western economies.

Another danger is that unconventional monetary policy post 2008, (ultra-low interest rates plus quantitative easing), may end up doing more harm than good through prolonged use. Low interest rates have encouraged a debt-fuelled boom that now makes it harder for central banks to raise interest rates. Negative interest rates could damage the profitability of commercial banks and so impair their ability to lend and / or push them into riskier lending. Banks could also end up holding large amounts of their government's bonds and so create a potential doom loop. (A doom loop would occur where the credit rating of the debt of a nation was downgraded which would cause bond prices to fall, causing losses on debt portfolios held by banks and insurers, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc.). In addition, the financial viability of pension funds could be damaged by low yields on holdings of bonds.

The overall longer run future trend is for gilt yields, and consequently PWLB rates, to rise, albeit gently. From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

In addition, PWLB rates are subject to ad hoc decisions by **H.M. Treasury** to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether H M Treasury would remove the extra 100 bps margin implemented on 9.10.19.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.

Appendix 4
Creditworthiness Policy

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands, illustrated below, which indicate the relative creditworthiness of counterparties. The Chief Finance Officer applies and reviews suitable financial and durational limits to each of these bands.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
up to 5yrs	up to 5yrs	up to 5yrs	up to 2yrs	up to 2yrs	up to 1yr	up to 6mths	up to 100days	no colour

The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on a monthly basis and for each investment transaction. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services' creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by LINK Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the CFO will also use market data and market information, information on any external support for banks to help support its decision making process.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits) are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

Sovereign ratings

The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA+.

The list of countries that qualify using this credit criteria as at the date of this report (based on the lowest available rating) are shown below and this list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

AAA		AA+
Australia	Netherlands	
Canada	Norway	Finland
Denmark	Singapore	U.S.A
Germany	Sweden	
Luxembourg	Switzerland	
United Kingdom		

Appendix 5

Approved Investment Instruments: Specified and Non-Specified

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories below .

Specified Investments

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable.

Investment Type	Minimum 'High' Credit Criteria/Colour Band
Debt Management Agency Deposit Facility	Yellow
UK Government gilts	Yellow
UK Government Treasury Bills	Yellow
Term deposits – local authorities	Yellow
Term deposits – banks and building societies	Green and above
UK part nationalised banks	Blue
Bonds issued by multilateral development banks	Yellow
Money Market Funds (CNAV)	AAA
Money Market Funds (LVNAV)	AAA
Money Market Funds (VNAV)	AAA
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA

Non-Specified Investments

Investment instruments with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

Investment Type	**Minimum Credit Criteria**	**Max investment or % of total investments**	**Max. maturity period ***
UK nationalised/part-nationalised banks (maturities over one year)	Blue	50%	2 years
Term deposits (over one year) – local authorities and other public sector bodies	Yellow	50%	5 years
Term deposits (any maturity) – Housing Associations	Equivalent to AA+	35%	2 years
Term deposits (over one year) – banks and building societies	Purple	75%	2 years
Certificates of deposits issued by banks and building societies (maturities under one year)	Green	50%	1 year
Certificates of deposits issued by banks and building societies (maturities over one year)	Purple	50%	2 years
UK Government Gilts	UK sovereign rating	100%	5 years
Bonds issued by multilateral development banks	AA+	50%	5 years
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	50%	5 years
Sovereign bond issues (other than the UK govt)	Sovereign rating AA+	50%	5 years
Structured Deposits (Fixed term maturities with variable rate and variable maturities)	Creditworthiness system colour band "Orange" <1 year "Purple" >1 year	25%	2 years
Commercial paper	AA	35%	5 years
Floating Rate Notes	Long-term AA	35%	5 years
Property Fund: *the use of these investments would normally constitute capital expenditure*	--	£10million	5 years
Property Fund: *not classified as capital expenditure*	--	£10million	5 years
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):- 1.Corporate Bond Funds 2.Gilt Funds	AAA	35%	5 years
Corporate Bonds	AA	35%	5 years
Multi Asset Funds	--	35%	5 years
Peer to Peer Lending	Funding Circle rating B or equivalent	£500,000 Individual loan - £2,000	5 years

Appendix 6

Non Treasury Investments (as at 15th January 2020)

Investment Properties **The criteria the Council has adopted for the recognition of an investment priorities is :-** A property held primarily to generate rental income or for capital appreciation or both. A property that is used solely to facilitate delivery of services, or to facilitate delivery of services as well as rentals does not meet the definition.					
Asset	**Value at 31.03.2019 ***	**Year Purchased**	**Purchase Price for investment fund assets including acquisiton cost**	**Asset life for the calculation of MRP**	**Asset life at March 2019 provided by Valuer**
	£ million		£ million	years	years
Distribution Warehouse at Medway	28.8	2017/18	31.4	50	60
Ferndown	26.1	2017/18	27.5	50	50
Fugro House	19.8	2017/18	20.6	50	50
Gadeon House	15.3	2017/18	16.9	50	50
Gala Bingo Club	0.3	n/a	n/a	n/a	n/a
Torquay Golf Course (Petitor)	1.2	n/a	n/a	n/a	n/a
Unit 3 Riviera Park	0.8	n/a	n/a	n/a	n/a
Waterside Caravan Park	2.5	n/a	n/a	n/a	n/a
Wren Retail Park	18.1	2016/17	21.1	50	61
Twyver House, Gloucester Purchase Price £12m	12.3	2018/19	12.5	50	40
Woodwater House Exeter Purchase Price £10m	9.3	2018/19	9.9	50	60
The Range, Babbacombe	8.8	2018/19	8.8	40	60
3 Lucknow Road, Bodmin	2.8	2018/19	3.0	35	30
Travelodge, Chippenham (asset under construction as at 31/3/2019)	0.1	2019/20	6.3	35	n/a
Distribution facility, Exeter (asset under construction as at 31/3/2019)	2.6	2019/20	14.7	50	n/a
Sub Total as at 31.3.19	**148.8**		**172.7**		
2019/20 investments as at 15/01/2020					
Crown Records, Exeter		2019/20	1.8	50	n/a
Bookers, Didcot, Oxfordshire		2019/20	34.6	40	n/a
Odeon, Taunton		2019/20	11.1	to be confirmed	n/a
Total			**220.2**		

* Note: Valuation are made inline with the CIPFA Accounting Code as required for the Council's Statement of Accounts

Loans (over £50k balance outstanding) All loans over £50k have received Council or Investment Committee Approval in line with Financial Regulations								
Debtor	**Value Principal**	**Loan Term (years)**	**Remaining term as at 31/03/19**	**Interest rate per annum**	**Outstanding Balance 31.03.2019**	**Draw Downs in 2019/20**	**Note**	**Mitagation of risk**
	£ million				£ million	£ million		
South Devon College	4.0	25	23 years & 3 months	2.80%	3.7			None - Council decision to accept risk as public sector
TDA - Cockington Car Park	0.6	n/a		n/a	0.0		Not yet taken up	
TDA - Unit E, Torbay Business Park	1.5	40	40 years	1.99%	n/a	1.5	New loan 2019/20	Wholly owned subsidiary of the Council
TDA - Kings Ash House	1.5	25	23 years & 3 months	4.50%	1.4			

Loans (over £50k balance outstanding)								
Care Home Provider	1.3	10	Repaid in full in quarter 3 2019/20					
Parkwood Leisure	1.7	12	12 years	4.80%	1.7			Asset leased from Council
THAT Group	9.3	Capital repayment starts in 2025 (7 years after the agreement)	36 years from 2025	5.25% to increase in 2023 to 8.5% over BR	n/a	5.1		legal agreement and personal guarantee
Effect Photonics Ltd	0.5	6	6	8.00%	n/a	0.2	Final drawdown before 31/03/20	Charge on the equipment
Total	**20.4**				**6.8**	**6.6**		

Guarantees
None as at 31.3.19

Pension Guarantees (to Pension Fund not Employer) Note: Any approved guarantees to new enities will be included once operational

Employer	Nature of Guarantee **	Fund Start Date	Bond Renewal Date	Existing Bond Amount £'000	***2017 Assessed Risk £'000	Mitigation of risk
Action for Children	A	01.08.2012	31.12.2016	80	22	Council contract
Mama Bears	A	08.12.2012	08.01.2018	22	9	Council contract
Healthwatch Torbay	A	01.05.2013	Cash held in Escrow A/C with DCC	13	21	Escrow a/c
Churchill Services (Sherwell Valley)	A	01.10.2014	30.09.2017	24	7	Low value
Torbay Community Development Trust	A	01.03.2014	Cash held in Escrow A/C with DCC	21	18	Escrow a/c
Sanctuary Housing (Intergrated Domestic Abuse)	A	02.09.2014	01.10.2019	10	39	Bond in place until 1.10.19
Torbay Coast and Countryside Trust	C	01.12.1999	n/a	n/a	223	linked charity
Tor 2 Waste (Kier PCG)	C	19.07.2010	n/a	n/a	324	pass through
Tor 2 Street Scene (Kier PCG)	C	19.07.2010	n/a	n/a	659	pass through
Tor 2 Asset Management (Kier PCG)	C	19.07.2010	n/a	n/a	632	pass through
Torbay Development Agency	C	01.07.2011	n/a	n/a	525	wholly owned subsidiary
The Childrens Society (Services) Ltd	C	01.01.2014	n/a	n/a	8	Low value
ISS Torbay Schools	C	01.08.2014	n/a	n/a	21	Low value
LEX Leisure (transfer of Velopark staff)	n/a	1.12.17	If deficit materialises, through LEX becoming insolvent, amount will be added to Council's existing deficit			
Libraries Unlimited (transfer of Libraries staff)	n/a	01.04.18	Any liability arising through Libraries Unlimited becoming insolvent, the amount will be added to the Council's existing fund deficit. In addtition, any liabiliity at the end of the contract will also be added to the Council's fund deficit			
CSW Group (Cornwall Local Government Pension Scheme)	n/a	2008	Torbay Council's liability limited to 8.1% based on population			

**A= Bond is required as part of the organisation's admission agreement
C= A bond is not in place and either the letting authority or a guarantor has responsibility for any residual deficit
***The summary shows the 2017 Assessed Risk Value as supplied by the Devon Local Government Pension Scheme

Subsidiary Companies (wholly owned by Torbay Council) - see Statement of Accounts 2018/19 https://www.torbay.gov.uk/media/12919/soa-1819.docx