



**Meeting: Council**

**Date: 6 February 2013**

**Wards Affected: All**

**Report Title: Revenue Budget Proposals 2013/14**

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**1. Purpose**

- 1.1 The Council has a statutory responsibility to set a budget each year. By setting and approving the revenue budget for 2013/14, the budget allocations proposed and the expenditure undertaken will be used to achieve the objectives within the Corporate Plan and the aspirations of the Bay as expressed in other related strategies.
- 1.2 In accordance with the Council's constitution, Members are being asked to either confirm their agreement to the recommended budget or put forward amendments or objections for consideration at a future meeting.

**2. Proposed Decision**

**2.1 That it be recommended to Council that:**

- (a) the revenue budget for 2013/14 (paragraph 6.3) and the associated fees and charges (appendix 1), be approved;
- (b) the final notified Dedicated Schools Grant be used in accordance with the nationally laid down Schools Financial Regulations (paragraph 6.1 (a)) and that the Chief Finance Officer be authorised to make amendments as required when the final figures are confirmed;
- (c) that the Members' Allowances Scheme will be implemented in 2013/2014 in accordance with the decision of the Council at its meeting on 1 February 2012 subject to the annual local government pay percentage increase (paragraph 6.1 (b)); and that Members acknowledge that they are not to be auto enrolled to the Local Government Pension Scheme for the reasons given in the report;

- (d) the Chief Finance Officer in consultation with the Mayor and Executive Lead Member for Finance be authorised to approve expenditure from the Comprehensive Spending Review reserve and Budget Pressures reserve;**
- (e) in accordance with the requirement of the Local Government Act 2003, to consider and note 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 (sections 8 and 9);**
- (f) the Chief Finance Officer in consultation with the Mayor and Executive Lead Member for Finance be authorised to make adjustments to and introduce new fees and charges within the budget during 2013/14 if it is in the best interest for the Council;**
- (g) the Chief Finance Officer, in consultation with the Mayor, Executive Lead Member for Finance and appropriate officers, be authorised to determine the allocation and expenditure of any new grant monies, unallocated grants or other additional income that may be received during the year 2013/14;**
- (h) the Chief Finance Officer be authorised to make adjustments to the budgets for any technical changes;**
- (i) the Chief Finance Officer prepare the appropriate documentation for the Council to approve the Council Tax setting at the meeting on 28 February 2013 and all other returns to be made by the appropriate date;**
- (j) impact assessments as shown in appendix 2 are noted;**
- (k) that Council note the Review of Reserves report and approve the transfer of the surplus on a number of individual reserves to the Comprehensive Spending Review Reserve (appendix 3);**
- (l) that Council approve and endorse the Capital Strategy and Asset Management Plan as set out in appendices 4 and 5;**
- (m) that Council notes the latest position on the 4 year Capital Investment Plan as set out in Appendix 11;**
- (n) that Council approve and endorse the Treasury Management Strategy and the recommendations in the report as set out in appendix 6;**
- (o) that Council note the updated Medium Term Resource Plan as set out in appendix 7;**
- (p) that Council note commissioning agreements from EDC, Torbay Coast and Countryside Trust and English Riviera Tourism Company as set out in appendix 8;**

- (q) that the Council note that Torbay has joined a Devonwide Pool as part of the Business rates Retention scheme - the agreement and arrangements for the pool are shown in appendix 9;
- (r) that Council approve a premium of 50% on the full Council Tax charge to be applied to all properties that have been empty and unfurnished in excess of two years - see paragraph 5.21 to 5.22.
- (s) that Council note the completed NNDR1 form as set out in appendix 10, which forms part of the Council's overall income to fund the 2013/14 budget – paragraph 10.10 to 10.12.

**2.2 Due to the size of the reductions required to deliver a balanced budget and their impact, Council accept the risks in preparing this budget. These risks have been identified in detail in this report and associated budget proposals prepared by officers for their respective Business Units.**

### **3. Reasons for Decision**

3.1 The Council has a statutory responsibility to set a budget each year. The approval of the 2013/14 revenue budget will assist the Council in delivering its key objectives.

### **4. Summary**

4.1 The Mayor issued his Provisional Spending Targets for consultation in November 2012. The development of the budget and resultant targets were supported by a service review across all Council activities – the associated documentation has been available on the Council's internet site:

<http://www.torbay.gov.uk/index/yourcouncil/financialservices/budget/budgetsummary.htm>

4.2 These service reviews have enabled Members and Stakeholders to fully understand the detail areas of activity provided across the Council including:

- What is provided? An overview of the activities carried out;
- Why it is provided? The basis of the provision (whether a service is statutory or not statutory);
- What is the demand? What drives the demand for the activity;
- How much does it cost? The resources allocated (costs and staff);
- How well are we providing it? The benefits (outcomes) of the activity.

4.3 Members of the Priorities and Resources Panel and Stakeholders have considered various documentation and responded to the Mayor on his budget proposals. The Mayor has considered all of the responses received and the final budget proposals have been drawn up after detailed consideration of the various financial reports presented to all Members.

4.4 In accordance with the Council's constitution, Members are being asked to either confirm their agreement to the recommended budget or put forward amendments or objections for consideration at a future meeting.

4.5 The Supporting information to this report includes:

- the Mayor's statement on the budget including Mayoral priorities;
- the Mayor's response to the Priorities and Resources Panel;
- summary of the budget process;
- the current financial climate faced by local government;
- budget proposals and digest (appendix 13);
- the outcome of the local government finance settlement;
- the Chief Finance Officer's statement on the robustness of the budget estimates.

4.6 A summary of the proposed Council budget is shown below in table 1

**Table 1**

**Summary of Proposed Budget 2013/14**

	2013/14	
	£ m	£ m
Mayor's Budget Proposal		
Net Expenditure Budget		127.4
Less Council Tax Freeze Grant		(0.6)
Total Net Expenditure		<u>126.8</u>
Funded By:		
Business Rate Retention Scheme	28.5	
Revenue Support Grant	42.7	
Other Grants (LACSEG)	<u>1.3</u>	
		72.5
Council Tax Income	52.5	
Collection Fund Surplus	<u>1.8</u>	
		54.3
Total Income		<u><u>126.8</u></u>

4.7 Members will be aware of the significant planned reductions in public expenditure as set out in the Comprehensive Spending Review which impacts directly upon local government. On 19 December 2012, the Provisional Local Government Finance Settlement was announced which confirmed the Council's prediction, as set out in the Medium Term Resource Plan, in that the Council was required to find savings in excess of £9m to enable a balanced budget to be set in 2013/14.

4.8 In setting this budget the Mayor is recommending that the Council accept the Government's Council Tax Freeze Grant which would mean Torbay's council tax has been frozen for three years.

- 4.9 The Mayor has set this budget to ensure resources are allocated so the Council's key priorities can be met i.e. protecting Children's and Adults, jobs and economic regeneration and support for tourism and events. However, the spending aspirations by the Mayor have to be set in the context of the most challenging financial situation for local government for a generation. As a result of these challenges, during the budget process Members and officers have been faced with a number of difficult decisions to ensure services can be delivered within a much reduced financial resource base compared to previous years. The Strategy to meet this challenge has been a budget process which has focused on identifying any efficiency savings through review and redesign of services but, due to the size of the reduction in government grant, some service reductions are inevitable.
- 4.10 The budget papers considered by Members and discussed at the Priorities and Resources Panel identified the key risks of the budget proposals. Members of the Board have also been provided with full impact assessments which have enabled business units to fully consider the impact of major decisions on the community.
- 4.11 The budget report includes an assessment by the Chief Finance Officer as to the robustness of the budget proposals. The Chief Finance Officer has declared that they are robust, however due to the scale of the required reductions a number of risks need to be closely monitored and accepted by Council. These risks include volatility of budgets which are subject to demand pressures which are outside of the control of the Council i.e. social care demands, income volatility, impact of welfare reforms including the introduction of the local council tax support scheme and universal credit. By approving this budget Members are recognising these risks. Directors and Executive Heads will be required to closely monitor their budgets throughout the year and all managers must ensure they manage their services effectively to ensure that they maintain expenditure within their approved budgets.
- 4.12 The adverse impact of the risks outlined above is a Business Unit's expenditure may exceed the approved budget during the year as a result of influences outside of the services control or due to the non delivery or late implementation of savings identified and approved by Council. This may result in the Council exceeding the approved budget if compensating savings are not found elsewhere.
- 4.13 The Strategy in place to mitigate against and respond to such a situation arising includes robust financial management by all Executive Heads and managers supported by regular monitoring of all budgets with detailed monitoring of volatile budgets. In addition to the Comprehensive Spending Reserve, it is proposed that a contingency is created in 2013/14 to address these risks – i.e. a Budget Pressures reserve. This will be set at £1m for 2013/14 and is included within the overall budget proposals. This continues the approach taken in previous years'. The Council will also take decisive in-year action to respond to any of these risks emerging such as in-year spending reviews as well as a spending freeze and recruitment freeze if required.
- 4.14 Members and officers will agree an action plan to address any overspend, if one occurs, and report publicly on progress against the action plan. Regular monitoring reports will be presented to Members throughout the year on the financial position both at the Overview and Scrutiny Board and Council. If the Council declares an overspend at year-end there will be a call made upon the Council's reserves or, in a worse case scenario, General Fund Balance to finance the overspend.

- 4.15 If there is any reduction in the Council's General Fund Reserve Balance this will need to be made good in future years and will be the first call upon the Council's budget in 2014/15. The current level of reserves is prudent but not excessive.
- 4.16 The Chief Finance Officer has made clear that the Council needs to set a robust and sustainable budget and that any "one-off" monies that are available should be applied to meet either "one-off" items of expenditure, such as redundancy costs, or be used to fund pump priming expenditure that should result in longer term efficiencies for the Council. The Chief Finance Officer does not recommend using "one of" monies to fund ongoing commitments unless there is a clear financial plan to address the ongoing spending commitment.
- 4.17 The government has confirmed that the Council will not receive confirmation of the Local Authority Central Spend Equivalent Grant (LACSEG) until March which will be after the Council sets the 2013/14 budget. In addition this grant could be revised during the year – i.e. it could be lower. Confirmation of these arrangements is disappointing and creates further uncertainty to the Council's finances. The Council has made an assumption as to the level of LACSEG it will receive as part of the budget proposals. If the final grant is lower than budgeted for any shortfall will have to be funded from the Council contingency or reserves.

## **5. Supporting Information**

### **Introduction from the Mayor**

- 5.1 Torbay Council is faced with meeting the challenge of the toughest period of grant reductions since it became a unitary authority in 1998. The ongoing reductions as set out in the Comprehensive Spending Review (CSR) period were increased when the Chancellor said in his Autumn Statement that local government will be faced with a further 2% cut over and above the 28% reduction previously announced. Whilst further cuts announced in the Autumn Statement did not impact upon my budget proposals in 2013/14 it will create further budget challenges for the Council in the following year.
- 5.2 I do not underestimate the challenges faced by the Council, particularly when resident's expectations are for service levels to be maintained at a time when demands on our services continue to increase and our resources are being significantly reduced. The budget presented to you for debate and approval is one that balances these conflicting issues and as such allocates resources to the Council's priorities with a key objective of ensuring all services are provided efficiently and effectively so that value for money is always achieved.
- 5.3 Members will be aware that the Government announced a two year Settlement for all local authorities and the early indications are that the financial challenges will continue into 2014/15 with a headline reduction in the Council's grant of £7m. With this level of grant reduction, no matter how innovative and imaginative the Council is in delivering services, there will inevitably be service reductions required to ensure the Council can deliver balanced budgets in future years.
- 5.4 Despite these financial challenges the Council is instrumental in supporting growth and opportunity within the Bay with the significant investment of

resources across a wide range of services and the support provided for inward investment. The proposed budget should enable the Council to respond to and meet these challenges whilst continuing to protect vulnerable children and adults and supporting jobs, economic regeneration, tourism and events.

- 5.5 I am proposing a budget of £126.8m for 2013/14. This will be challenging due to the level of savings required to deliver a balanced and robust budget. The proposed budget has been arrived at after considering the views of the Priorities and Resources Panel, Stakeholders and individual responses. Due to the limited resources available to the Council I have been limited in the flexibility I have had in making changes to my original proposals.
- 5.6 In setting this budget the Council is not underestimating the challenge it faces. However we are also not underestimating how difficult it will also be for Torbay residents to balance their own household budgets in these difficult times. Therefore, as announced last week in these continuing times of austerity I have decided to propose accepting the Government's offer of a council tax freeze grant to ensure the council tax is frozen for another year which will lessen the burden on Torbay Council Tax payers.

### **Response to Priorities and Resources Panel**

- 5.7 As set out in the Council's Constitution, all Members have had an opportunity to scrutinise the budget proposals since they were announced back in November 2012. It should also be recognised that when I presented the budget proposals, the Council had not received its grant allocation from Government making the task even harder. The Priorities and Resources Panel held a series of public meetings during January 2013 and have considered the detailed proposals. As well as questioning Members and Officers, they have had the opportunity to make alternative proposals for budget reductions. Stakeholders were also invited to these meetings and made representations about the proposals. The Panel has been faced with the same difficult choices I have had to consider.
- 5.8 The Panel was able to challenge Executive Lead Members and officers to allow them to formulate their views and recommendations which they presented to me on 1 February 2013. I would like to thank the Panel for their hard work and the constructive comments they have made to help me formulate my final proposals. The Panel is also fully aware of the difficulties faced by the Council and the extremely challenging financial climate the Council is facing and due to this the limited scope for making changes to the original budget proposals.
- 5.9 The Priorities and Resources Panel made a number of recommendations and once again I thank them for all of their hard work. I have noted a number of the recommendations but would like to make a number of specific comments:
- a) I support the Panel's view that the Council should aim to deliver a three year Business Plan. All Business Units have provided detailed service reviews for consideration and scrutiny and these form the foundation to enhance the Council's business planning. Whilst the Council has been provided with a two year settlement, Members need to be mindful of the impact of these reductions in future years and the challenges faced by the Council when developing longer term plans.

- b) I support the need for ongoing and continued close working with all Council Partners and the voluntary sector to ensure the Council can meet the difficult challenges it is faced with. In particular, the Council will work closely with partners so it can have in place a co-ordinated approach in responding to the impact of the Welfare Reforms. I have asked officers to prepare a report for Council in the near future on this matter.
- c) I have carefully considered the comments made by the Panel with respect to my savings proposals. Members will be aware of the difficult financial position faced by the Council and in response to this I have consulted officers and Executive Leads to see what changes can be made to my budget proposals. As a result of these discussions I have been able to remove the planned reduction to the Citizen's Advice Bureau (CAB) of £30,000. The importance and value of the work undertaken by the CAB is recognised and has been reflected in my final proposals. I note that the Panel welcome this change.
- d) I have also listened carefully to the discussions and debate with respect to Home to School Transport. I acknowledge that elements of the Council's home to school/college transport policy reflect discretionary rather than statutory powers. Therefore I have decided to conduct a consultation on a range of proposed changes to the policy phased over a number of years. The results of this consultation will inform a report to Council later in the year. The sum for savings on home to school transport included in the provisional targets for 2013/14 was £11,000.

However, as part of the wider budget setting process the savings target has been increased to £23,000 which partly offsets the sums identified in paragraph c above. This sum still enables the consultation to include any proposed changes to be phased over more than one year.

5.10 In addition to these proposals I have would like to identify specific sums of money within the budget to support a number of priorities. These include:

- £100,000 to support the Events Forum. The tourism industry is an essential part of the Bay's economy and this money will be used to help support and facilitate and attract new events to the Bay;
- £50,000 for a Business Organisation Initiative. This funding will support and assist the business community to work closer together and form a collective voice for the regeneration of the Bay;
- £100,000 to provide additional resources to increase the management, licensing and enforcement of Houses of Multiple Occupation.

5.11 Members have been advised of the risks contained within these budget proposals. These include demand pressures in particular those that may arise within Social Care. When the provisional targets were set, £2m of additional funding was allocated to Children's Services to support the increased costs within Safeguarding. In addition the budget proposals included £0.2m of resources to fund increased costs for SEN responsibilities for children over 16. I can confirm these sums are within the final budget proposals and this increase



funding allocation demonstrates the priority given to protecting vulnerable Children within the Bay. My proposals mean the Children's Services budget will increase by £1.3m in 2013/14.

- 5.12 Members will be aware of the impact of increased costs for Ordinary Residency within the Adult Social Care budget as reported within the revenue monitoring reports during 2012/13. The full year affect of these unavoidable costs is £1.1m in 2013/14. These additional costs have been reflected within my final budget proposals which means the Adult Social Care budget will be £43.8m in 2013/14 an increase of £0.8m compared to 2012/13, again reflecting the priority given to protecting the Bay's vulnerable adults. Unless there is a national agreement as to how the costs for Ordinary Residency are funded this will remain a volatile area for Torbay as a net recipient of Ordinary Residency cases. To mitigate against this volatility I propose the Council retains a £0.2m contingency which is earmarked for Adult Social Care pressures i.e. any increased costs for Ordinary Residency.
- 5.13 Members will be considering a report on proposals for Care Home Fees for 2013/14 at Council on 6 February 2013. The budget proposals assume the recommendations made within the Care Home Fees report will be approved.
- 5.14 The Annual Strategic Agreement (ASA) between the Council and Torbay and Southern Devon Health Care NHS Trust sets out the way in which both organisations will work in partnership to deliver the provision of Adult Social Care. The ASA will be considered by Council on 28 February 2013 and is supported by these budget proposals.
- 5.15 As stated in paragraph 4.13, to further mitigate against the risks associated with the budget proposals it is recommended £1m is to be held as a budget pressures reserve. Any call on this reserve due to social care pressures, income volatility etc. will have to be supported by a detailed analysis as to the reasons for the overspend and after all alternative options for cost reduction have been considered.
- 5.16 Members will be aware that the Public Health grant was not announced on 19 December 2012 when the provisional settlement was announced. This was announced on 10th January 2013 and amounts to £7.15m. Whilst this is included as part of the Council's overall budget this is a ring-fenced grant. The Director of Public Health will be presenting a report to Members setting out the implications of the grant allocation.

### **Council Tax and Capping**

- 5.17 As mentioned in paragraph 5.6, the Mayor is proposing a council tax freeze for 2013/14 which means the Council will receive a council tax freeze grant. For Torbay this will mean a grant of approximately £0.620m. However, Members are reminded that the council tax freeze grant in 2013/14 is for two years only which means in 2015/16 the council will have an income shortfall of approximately £1.2m – a combination of reduced grant and lower than possible Council tax income. Therefore, the council would have to increase the 2015/16 council tax by 2% just to maintain its existing council tax income (subject to some minor changes which will arise from changes to the council's tax base) or find additional savings to this value. At time of writing there have been over 115

authorities that have said they will set a zero council tax increase.

- 5.18 To control the level which local authorities increase council tax, the Government has set a maximum rate. For 2013/14 any local authority who proposes a council tax increase of more than 2% (or more than £5 for district councils) will have to undertake a local referenda and gain public support for such an increase.
- 5.19 Members will be aware the Council Tax bill eventually sent out to residents is made up of three main component parts, namely Torbay Council, the Police Authority and the Fire Authority. The Secretary of State will look at the three component parts, not the overall bill, therefore if one of the three organisations were capped the Council would have to re-bill. Members will be aware that in addition there will be a separate council tax charge for residents in Brixham for Brixham Town Council.
- 5.20 At the time of writing this report, neither the Police Authority nor the Fire Authority has set their budgets for 2013/14 and council tax level. Once these have been declared they will be reported to Members and will be included within the Council Tax Setting report which will be presented to Members at the end of February 2013.
- 5.21 Members will recall in December that Council approved a number of technical changes as set out in the council tax base report. These reduced the discounts that could be claimed with respect to the level of council tax charged on properties. These changes have a direct impact upon the council's tax base which is used to determine the amount of council tax income that can be collected during the year.
- 5.22 The Local Government Finance Act 2012 allowed a billing authority to apply a premium to long term empty dwellings (empty and unfurnished in excess of two years) of up to an additional 50% of the full Council Tax charge for that property. The council tax base report said:
- “At this stage, due to the significant changes to the Taxbase calculation from April 2013, it is proposed not to apply any additional premium to the Long Term Empty dwellings. If implemented the impact of the premium is estimated to be in the region of £0.1m per 10% premium.”
- 5.23 Officers have reviewed this decision and have decided to recommend that this premium is applied from April 2013. Whilst this will not impact on the Council's taxbase for council tax setting purposes it may result in the receipt of additional income which will be reflected within the collection fund surplus or deficit at financial year end. In addition a reduction in long term empty homes is part of the calculation of the Council's New Homes Bonus grant which should lead to additional grant in future years.

## **6. Revenue Budget Proposals**

- 6.1 As part of the budget process there are a number of formal issues that have to be dealt with.

### **a) Dedicated Schools Grant**

The Council has to confirm that it will be directing the entire grant received in respect of Dedicated Schools Funding through to those areas as defined in the School Finance Regulations. The Council is allocated £86.3m of Dedicated Schools Grant (DSG) before Academy recoupment. It is recommended that approx £46m be included in the Council's budget for schools related expenditure for non academy schools. It should be noted that this is an estimated figure and the final DSG will be confirmed in July 2013. It is recommended the Chief Finance Officer (CFO) be authorised to make appropriate changes when the final numbers are known.

### **b) Members Allowances**

The Council approved the Members' Allowance Scheme on 1 February 2012. The Scheme is subject to review every four years by an Independent Remuneration Panel and it includes a requirement for the Basic Allowance, Special Responsibility Allowances and Co-optees Allowances to be indexed, on the 1 April each year from 2013, to the annual local government pay percentage increase as agreed by the National Joint Committee for Local Government Services. The budget has been developed on the basis that the existing scheme is continued as previously endorsed by the Council. Thus Members' Allowances will be increased by the appropriate rate in line with the annual pay award which is currently set at 1%. However, if Members, through the budget debate, approve a different level of payment in respect of allowances then this would be reflected in the payments for 2013/14.

From October 2012 the law on workplace pensions changed and employers are now required to automatically enrol eligible workers into a workplace pension. The Members' Allowances Scheme does not include provision for members to join the Local Government Pension Scheme (LGPS) and from April 2014 the Government is intending to prohibit councillors from being members of the Scheme. However, it is possible that the Government may make an exception for elected Mayors to be members of the LGPS as it is expected that this role is carried out by the post holder as a full time position. Members other than the Mayor will not be auto enrolled into the LGPS on the basis that, although members spend significant time carrying out their duties, as they are elected to hold office and provide their time and services as elected representative they are not considered to be a 'job holder' for the purposes of the Pensions Act 2008. Furthermore, it is not intended that councillors should have to leave their ordinary employment in order to carry out their roles as councillors. If any councillors object to the position stated above they can request the Independent Remuneration Panel to review the current Members' Allowances Scheme and make recommendations to the Council.

### **c) Fees and Charges**

As part of the budget process, Members have been able to review the expenditure plans for all services as set in the budget information made available and, where applicable, have also had the opportunity to review the proposed charges for services each business unit has been proposing in accordance with the principles and best practice laid down by the Audit

Commission. These proposals were available to Members when the Provisional Spending Targets were announced in November 2012 (appendix 1). It is recommended that these charges are approved.

- 6.2 Included within Torbay's Budget Requirement is the budget for the Brixham Town Council. The Town Council approved their 2013/14 budget on 17 January 2013 of £192,450. This is a decrease of £624 compared to the previous year. Due to the changes in central government funding, Brixham Town Council's total income from council tax will be made up of precept and a contribution from Torbay Council. The precept will be £155,297 and the contribution will be £37,153. The precept is a specific levy to the council tax payers of Brixham equivalent to £27.74 per band D property (£28.97 in 2012/13).

#### **Recommended Budget 2013-14**

- 6.3 Table 2 below summarises the recommended budget for each Business Unit of the Council if the recommendations are accepted. The budget digest will be circulated to Members in advance of the Council meeting on 13 February when the budget proposals will be considered.

**Table 2**

#### **Recommended Budget 2013-14**

Business Unit/Service	Total	Total	Corporate Budgets	Total
	£000's	£000's	£000's	£000's
<b>Adults &amp; Resources</b>				
• Adult Social Care				
○ Torbay Care Trust	43,304	0		0
○ Other Adult Services – Joint Equipment Store	500	0		0
Adult Social Care Total		43,804		43,804
• Commercial Services		3,563	(999)	2,564
• Information Services		3,408	(668)	2,740
• Supporting People		4,418		4,418
<b>Children, Schools &amp; Families</b>		28,001		28,001
<b>Public Health and Community Safety</b>				
• Public Health **		0		0
• Community Safety		2,239		2,239
<b>Place and Resources</b>				
• Business Services		1,604		1,604
• Economic Development Company		4,048		4,048
• Finance		10,375	(8,570)	1,805
• Residents & Visitors		7,780	(154)	7,626
• Spatial Planning		5,700	(4,322)	1,378
• Torbay Harbour Authority		0		0
• Waste & Cleaning		11,826		11,826
<b>Corporate Budgets</b>			14,713	14,713
<b>Sub Total</b>		<b>126,766</b>	<b>0</b>	<b>126,766</b>

Brixham Town Council -		155		155
Schools Related Activity *		46,000		46,000
<b>TOTAL</b>		<b>172,921</b>	<b>0</b>	<b>172,921</b>

- Corporate Budgets include Treasury Management, Precepts, External Audit Fees, Concessionary Fares, IT licences.
- \*subject to final confirmation of pupil numbers in July
- \*\*Public Health is a ring fenced grant for 2013/14 of £7.15m

6.4 The proposed budget assumes the council will accept the Council tax Freeze Grant in 2013/14 and 2014/15 of approximately £0.6m which is guaranteed for 2 years. This will mean the council is budgeting to receive council tax income of £52.447m.

6.5 Members will recall that the council tax freeze grant in 2011/12 was guaranteed for the four year CSR period i.e. up until the end of 2014/15. Members are reminded that the council tax freeze grant received in 2012/13 was for one year only resulting in a budget gap of £1.5m in 2013/14. If the freeze grant is accepted in 2013/14 the council will be faced with a further budget gap of £1.2m in 2015/16

6.6 Therefore, unless future funds are made available from government, the council will have to consider the impact of this decision when setting levels of council tax for 2015/16 and beyond.

### Summary Financial Position

6.7 If all the recommendations included in this report are accepted then the overall financial position will be as shown in table 3 below:

**Table 3**  
**Summary Financial Position 2013-14**

	£'000
<u>Planned Expenditure</u>	
- Torbay Council net revenue budget	127,387
- Less Council Tax Freeze Grant	(621)
	126,766
- Brixham Town Council	155
- Schools Related Expenditure	46,000
	172,921
 <u>Funded by</u>	
Delegated School Grant (provisional)	46,000
RSG and Other Grant (LACSEG)	44,061
Business Rate Retention Scheme	28,433
	-----

	118,494
	-----
Council Tax	
- Collection Fund Surplus	1,825
- Torbay Council	52,447
- Brixham Town Council	155
	-----
	54,427
	-----
Total Funding	172,921
	=====

6.8 As indicated earlier, if approved, this would represent a freeze in the Torbay Council element of the final Council Tax demand note for the third consecutive year. However, the final bill will also depend upon the final demands from the Devon and Cornwall Police Authority, the Devon and Somerset Fire Authority and the impact of the budget set by Brixham Town Council for the residents of Brixham.

## 7. Use of Reserves

7.1 There has been media attention as to the level of reserves held by local authorities and how these should be used in this time of significant reductions to funding. As part of the annual budget deliberations the Council undertook a review of its reserves which was considered by the Priorities and Resources Panel in November 2012. This review recommended the Council release £1.4m from reserves and be allocated to the Comprehensive Spending Review (CSR) reserve. A copy of the Review of Reserves is included in appendix 3.

7.2 Members will recall that the CSR reserve was set up in 2010/11 in anticipation of the significant grant reductions expected over the CSR period to support the budget over this period and in particular to fund the costs of redundancies. Due to the existing in year pressures faced by the Council this reserve may also be required to fund any overspend at year end and ensure the Council can declare a balanced budget at the end of 2012/13.

7.3 Officers and Members are still assessing the impact of the budget recommendations on staffing but the Council will, where possible, minimise the number of redundancies made through vacancy management and redeployment of officers put at risk where appropriate. However, based upon the proposals made and already implemented, there will be redundancies and associated costs. The final costs of redundancies arising from the budget proposals (which are accounted for in 2012/13) will be reported to Members and are estimated to be excess of £1m.

## 8. Budget Risk Assessment by the Chief Financial Officer

8.1 When preparing the annual budget the Council's Section 151 officer – the Chief Finance Officer – must comply with a number of statutory requirements as set out in the Local Government Bill 2003. These relate to the robustness of the budget estimates for each financial year and the adequacy of the Council's reserves. This requirement is contained within Clause 25 of Part II of the Bill and

forms a fundamental part of the external auditor's assessment each year.

- 8.2 As in previous years, the Council has been through a detailed budget process in setting the budget for 2013/14. The Mayor published the provisional spending targets in November which is the earliest they have been published for consultation and this was supported by service review information which has been available on the council's internet.
- 8.3 The budget proposals have been scrutinised by the Priorities and Resources Panel and Stakeholders. The Panel presented a report to the Mayor on their conclusions and recommendations before the Mayor proposed a final budget to Council.
- 8.4 Torbay Council has always adhered to a number of legislative and regulatory requirements which require the robustness of the budget to be considered and the adequacy of the reserves when setting the budget: i.e. sections 25 of the Local Government Act 2003 and the Chief Finance Officer's section 114 responsibilities with respect to managing a balanced budget for the authority. The requirements contained within the 2003 Bill formalise a number of these functions, which has always been implicit within the Council's previous budget setting process.
- 8.5 When recommending a budget to Council for 2013/14, the Mayor needs to give consideration to the Government powers contained within Clause 26 of the Bill with respect to the level of general fund balances and reserves. As part of the budget process I, as Chief Finance Officer and the statutory responsible financial officer, make an assessment as to the level of the Council's reserves and balances and this is outlined below. The Secretary of State for Communities and Local Government has reserve powers to set a minimum level of general fund balances and reserves for local authorities. This may occur as a consequence of the Chief Finance Officer reporting that the level of reserves is inadequate.
- 8.6 To comply with the legislation a report on the level and adequacy of the Council's reserves was prepared and was available on 30 November 2012 to be considered as part of the budget papers. In summary section A.5 of the report stated the following:

**Chief Finance Officer Statement.**

- 8.7 **I am satisfied that the Council's General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council's Financial Plans and to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment.**
- 8.8 The Council's General Fund Reserve of £4.0 million represents 3.2% of the Council's overall 2012/13 net budget. If the proposed budget is approved General Fund Reserves will represent 3.2% of the Council's overall 2013/14 net budget.
- 8.9 The report also made reference to the state of the earmarked reserves. The report recommended that £1.4m be released from reserves and that all other earmarked reserves were considered appropriate at this time. At the present

time I cannot recommend any further reductions to the earmarked reserves or general balance, other than planned expenditure in accordance with terms of the establishment of the respective reserve.

- 8.10 I must continue to stress that if, at any time, the Council recommends the use of one-off reserves to fund ongoing commitments I will have to state that whilst the budget will be robust for 2013/14 this is not a sustainable option and it will require the Council to start planning immediately to identify savings and /or service reductions to ensure the budget is robust.

## **9. Robust Budget**

- 9.1 The production of a robust budget each year is an essential element for the effective financial management of the authority. Torbay has continued to align service delivery and financial planning which involves matching and moving resources to deliver service priorities.

- 9.2 Attached to this report as appendix 7 is an updated version of the Medium Term Resource Plan. An earlier version of the Plan (before the Provisional Local Government Finance Settlement was announced) was distributed and considered by the priorities and Resources Panel in November 2012. The Plan will be continually updated to reflect the latest financial information available.

- 9.3 There are a number of risks which can arise during the development of the budget. These include:

- inaccurate assessment of costs and income;
- failure to identify emerging risks and service pressures through the Council's business planning process;
- service variations being proposed that are not achievable or realistic;
- resource allocation not linked to strategic objectives;
- a lack of involvement of Members, Stakeholders and local residents
- weak budgetary control;
- Changing nature of budgetary assumptions (see below) in a climate of uncertainty.

- 9.4 To mitigate against these risks a number of assumptions have been made in the development of the budget for 2013/14 to ensure a robust budget is set. These include:

- the assessment of inflationary pressures. A 1% provision has been made for a pay award. The final pay award has not been agreed and it is not expected that the increase will be above this level.
- price increases are included as part of the budget build. Services have been asked to mitigate against inflationary pressures by reducing purchasing/usage where possible.
- an assessment of the level of interest rates which is contained within the Council's Treasury Management Strategy – see appendix 6.
- the assessment of increased demand for services based upon business units assessment of demand.
- an assessment of the level and timing of capital receipts and payments an assessment of the revenue impact for any planned unsupported borrowing – as shown in the latest capital investment plan update report (appendix 11).



- an assessment of the revenue consequences of any capital investment.
  - continued review of actions and emerging issues taking place in 2012-13 as part of the regular budget monitoring process and how these may impact on 2013-14 and later years, in particular volatile budgets such as Adult Services, Children's, income such as car parking and Concessionary fares.
  - The creation of a budget pressures reserve.
- 9.5 Members will be aware that Executive Heads and all managers have a responsibility to ensure they maintain their spend within the 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 meetings and all Members which review the budget on a quarterly basis throughout the financial year, which mitigates against the risk of inadequate financial control.
- 9.6 In addition to the generalised risk relating to financial control, there are also a number of specific risks which the Council has addressed in the recommended budget. The main specific risks relate to the impact of an increase in the number of complex projects, investment to support increasing demands with social care and safeguarding children, the cost of any redundancies and the continued impact of the current economic climate.
- 9.7 The Council is also faced with other risks which have been considered as part of the budget i.e. risks with partners such as Tor2, the Coast and Countryside Trust, Torbay Economic Development Company, Tourism Company and the Riviera International Conference Centre. The Council will continue to work closely with partners to ensure key outcomes and objectives are achieved but mindful of the difficult financial challenges we are all facing. Commissioning agreements from EDC, Torbay Coast and Countryside Trust, and the English Riviera Tourism Company are included as appendices to this report (appendix 8).
- 9.8 Revenue (and Capital) monitoring reports to the Overview and Scrutiny Board are published during the financial year in accordance with set meetings. In addition, key volatile budgets are reviewed and updated on a regular basis and are monitored on a monthly basis. Individual business unit budgets are also reviewed as part of the Council's Performance Management system. This ensures that senior managers have an opportunity to discuss the key financial issues facing the Council and take corrective action as necessary. In addition all budget holders receive profiled budget reports within 10 days of the close of the financial period.

## **10. Local Government Finance Settlement**

- 10.1 This section provides a summary on the outcome of the Local Government Finance Settlement which sets out the formula grant allocation to Torbay in 2013/14.
- 10.2 At the time the Mayor circulated the 2013/14 Provisional Spending Targets for each Business Unit in November 2012, the Council had not received confirmation of the Provisional Local Government Finance Settlement.

- 10.3 The Provisional Settlement was announced on 19 December 2012 and confirmed on 4 February 2013 when the final settlement was announced. It should be noted that was the latest the announcement was made since Torbay became a unitary authority – the provisional figures are usually expected at the beginning of December. The late announcement created significant uncertainty and presented difficulties in finalising the provisional spending targets and the final budget proposals.
- 10.4 This has been compounded by the complexity and range of changes introduced to the system for local government finance and a number of inaccuracies and incomplete information provided by the Department of Communities and Local Government when the initial figures were announced.
- 10.5 As in previous years the Council continues to suffer from the current “damping” arrangements – losing £2.5m in 2013/14. Torbay will have lost £35.1m in grant since the introduction of damping in 2006/07. Whilst the Council continues to argue against damping, this mechanism is now a permanent feature of the system for local government finance.
- 10.6 As in previous years, the Council made representations to the Government with respect to the provisional settlement which included Torbay’s concerns about the significant reduction to the Council’s grant and the impact this will have upon the delivery of local services, the lateness of the announcement, the amount of incomplete and inaccurate information provided on the day the settlement was announced and the continuation of the damping arrangements.
- 10.7 There have been a number of significant changes to the system for local government finance, in particular the introduction of the Business Rates Retention Scheme which was outlined within the Medium Term Resource Plan (see Appendix 7). This means the format and presentation for the council’s grant allocation differs from previous years. The Settlement provided all authorities with a 2 year allocation.
- 10.8 A summary of the Final Settlement is shown in the table below:

Table 4

	2013/14	2014/15
	£'m	£'m
Top Up payment	10.398	10.720
Revenue Support Grant	42.731	34.996
<b>Total Grant</b>	<b>53,129</b>	<b>45,716</b>
Business Rates (Torbay Council estimate)– 49% share	17.865	18.419
<b>Total Income</b>	<b>70.994</b>	<b>64.135</b>
% reduction		<b>9.7%</b>

- 10.9 As mentioned in a number of reports the Settlement has been extremely challenging for Local Government and Torbay in particular and note that the position for 2014/15 means a further cash reduction in income of £7m or 9.7%. This cash reduction is before the Council has to consider the impact of any inflationary or service pressures which will increase the budget gap.
- 10.10 With the introduction of the Business Rates Retention Scheme local authorities have an incentive to promote business growth as they will retain additional a proportion of this additional income. For 2013/14 all Devon authorities have agreed to form a “pool” for the purposes of Business Rates. It is estimated that Devon will derive significant benefits of business rates income over 5 years. For 2013/14 the estimated benefit for Torbay Council is £0.170m, which has been included in the budget proposal. The agreement and arrangements or the pool are set out in appendix 9.
- 10.11 Under the new funding system the value of the business rate income for the Council is an integral part of a Council’s overall funding. Under the previous system billing authorities, like Torbay, collected business rate income on an agency basis on behalf of central government and passed the income to a central pool. This pool was then redistributed to Councils on a “needs” basis. Under the new system Torbay will retain 49% of all business rate income collected with the Council bearing a share of the risk or reward from any variations in income level. This system aims to provide Councils with clear incentives to promote business rate growth.
- 10.12 Due to the importance of this estimate of the value of NNDR income and the impact it has on the Council’s income, the DCLG recommend that this estimate is now approved and Members are aware of the estimate being made. The estimated income for the year is submitted as part of the NNDR1 return and will form part of the Council’s 2013/14 budget as set out in table 4. As the DCLG required this information by 31 January 2013, it was agreed at Council in December 2012, the approval of the level of Business Rates income was delegated to the Chief Finance Officer.

## 11. **Possibilities and Options**

- 11.1 There are no alternative options to the Council with respect to whether a budget must be set as this is a statutory requirement. However there are alternative spending options which Members may wish to debate before coming to a final decision. Members can make amendments to the proposed budget as set out in the Council’s Constitution.

## 12. **Preferred Solution/Option**

- 12.1 As set out within the report.

## 13. **Consultation**

- 13.1 A separate report has been compiled which sets out the Consultation process (appendix 12) with the Priorities and Resources Panel including Stakeholder representations. The Council also conducted a Budget Workshop for residents.

## 14. Risks

- 14.1 The Chief Finance Officer has a statutory responsibility to report to Council if, in his opinion, the Council sets an unrealistic budget given the information available at the time of the budget setting. In addition to his professional opinion he must, to a degree, be reliant on the advice of his colleague officers. This is particularly the case when approving the 2013/14 budget which will be extremely challenging for the Council and all services both financially and in terms of maintaining service levels.
- 14.2 At the time of writing this report, no officers have stated that the budget they have responsibility for is unachievable or that they will be unable to fulfil their statutory duties. As a result of the actions taken in preparing the budget forecasts and the assurances from other officers, the Chief Finance Officer is satisfied that the recommended budget is both robust and achievable. He is also of the view that based upon recommendations included in the report as written, it is also sustainable, assuming no significant external factors impacting on the Council in future years.
- 14.3 The budget report has set out how the risks associated with the budget proposals will be mitigated and action that will be taken.

### Appendices:-

- 1 Fees and Charges.
- 2 Impact Assessments.
- 3 Review of Reserves.
- 4 Capital Strategy.
- 5 Asset Management Plan.
- 6 Treasury Management Strategy.
- 7 Medium Term Resource Plan.
- 8 Commissioning Agreements.
- 9 Draft Pooling Agreement.
- 10 2013/14 National Non Domestic Rates Return 1.
- 11 Capital Investment Plan
- 12 Budget Consultation Report
- 13 Budget Digest (to be circulated separately to Members in advance of the Council meeting on 13 February).