

Meeting: Cabinet
Council

Date: 23 February 2023
Date: 7 March 2023

Wards affected: All

Report Title: Revenue Budget 2023/2024

When does the decision need to be implemented?

Immediately

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1. Purpose of Report

- 1.1 The Council has a statutory responsibility to set a budget each year. By setting and approving the net revenue budget for 2023/24 and the budget allocations proposed, the budget will be used to achieve a range of objectives across several plans within the Council. This will meet the ambitions expressed within the Community and Corporate Plan and other related strategies.
- 1.2 In accordance with the Council's Constitution, members will consider the Cabinet's recommended budget proposals at the meeting of the Council being held on 7 March 2023 and are asked to either adopt the Cabinet's proposals or put forward notice of motion to amend the budget (in accordance with Standing Order A13.4).
- 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 and its benefits

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

3. Recommendation(s) / Proposed Decision - Partnership's Budget Proposal

- 3.1 That for 2023/24 net revenue expenditure of **£131.0m** resulting in a Council Tax requirement of **£82.7m** for 2023/24 (a 4.99% increase in Council Tax, of which 2% is for Adult Social Care) be approved.
- 3.2 That the proposed Fees and Charges for 2023/24 be approved.
- 3.3 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.
- 3.4 That it be noted that the Brixham Town Council precept for 2023/24 of £394,372 will be included as part of the Torbay Council budget for Council Tax setting purposes.
- 3.5 That the Chief Executive, in consultation with the Director of Children's Services, Chief Finance Officer, Cabinet Member for Children's Services and Cabinet Member for Finance, be authorised to approve the "safety value" agreement in relation to the Higher Needs Block deficit, subject to an offer of an agreement being made by the Department for Education.

Background Information

- 4.1 The Partnership has published its budget proposals, and these are available to all Members of the Council. All Members have available copies of the supporting information which has been published alongside the proposals:
 - Chief Financial Officer's Report
 - Revenue Budget Digest 2023/24
 - Fees and Charges 2023/24
 - Review of Reserves 2023/24
 - Capital Strategy 2023/24
 - Capital Plan 2023/24
 - Treasury Management Strategy 2023/24

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. Several assumptions have been made in the development of the budget for 2023/24 to mitigate against the risks. Several specific risks and their mitigation are shown below:

Risk	Risk Rating	Mitigation
Economic impact of COVID and cost of living.	Medium	<p>The inclusion in the 2023/24 budget of an allocation for cost-of-living issues on the demand for council services.</p> <p>Use of Torbay Support Fund comprising both council and central government funding to support residents.</p>
Performance of Subsidiary Companies	Medium	<p>Council oversight as owner over its companies including attendance at Board meetings and review of performance.</p> <p>Council approval required for reserve matters and for investment/borrowing proposals.</p>
Inability to deliver a balanced budget over the next three financial years	Medium	Work on future years' financial position is ongoing led by the Chief Executive and Chief Finance Officer.
Identified budget reductions for 2023/24 are not achieved	Low	<p>Monthly monitoring of current year financial position by Senior Leadership Team including a "savings tracker".</p> <p>Contingency budget in 2023/24 revenue budget.</p> <p>Directors, Divisional Directors and all managers have a responsibility to ensure they maintain spend within their approved budget allocation.</p> <p>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.</p>
Overspend against the proposed 2023/24 Children's Services budget	Medium	<p>The Director of Children's Services (DCS) has a sufficiency strategy with several work streams that has been established and is being implemented, supported by a range of monitoring and performance arrangements. The Sufficiency Strategy has been updated.</p> <p>50% of the 2023/24 increase in Social Care grant has been allocated to this service.</p>
Overspend against the proposed 2023/24 Adult Social Care budget	Low	<p>Agreement in place in which Council pays a fixed payment with no exposure to any over or under spends.</p> <p>50% of the increase in Social Care grant has been allocated to this service. In addition there are additional service specific grants from central government; Discharge Fund and Fair Cost of Care and Improvement Grant.</p>

Risk	Risk Rating	Mitigation
Volatility of NNDR Income	Medium	Provision for appeals and non-collection is included in 2023/24 NNDR income estimate.
Insufficient income generated	Medium	Annual cycle for budgeting. Prudent view taken of income streams in 2023/24 and a contingency held in respect of low rent levels because of Covid-19.
Insufficient investment fund income	Medium	Prudent view taken of income streams in 2023/24 and the Investment Fund reserve maintained.
Collectability of council tax and NNDR	Medium	Council Tax Support and other forms of support via the Torbay Support Fund is available. Provision for appeals and non-collection of NNDR is included in 2023/24 NNDR income estimate.
Insufficient reserve levels because of a significant budget variance or unforeseen event.	Medium	Review of Reserves report presented to the Council. £5.7m balance in the General Fund balance £3m target balance held in CSR Reserve
Exposure to changes in interest rates	Medium	Treasury Management Strategy to be approved by the Council. All historic borrowing currently on fixed rate deals. Interest rate rises could increase the future costs of council borrowing.
Inflationary pressures	High	Budget build has included estimates of inflation where applicable. Inflationary pressures are currently high (January CPI was 10.1%). Pay award and impact of living wage not nationally finalised for 2023/24. A 4% pay award has been estimated. Capital Plan has a number of projects where there has been cost inflation and or supply chain issues that will result in project cost increases.
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.

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 of the Council, the Cabinet and Council Directors in forming my opinion. My opinion is that the 2023/24 budget is based on robust budget estimates.

This opinion is supported by the current financial position for childrens social care, the two year extension to the agreement for adult social care and the level of Council reserves.

The key risks are outlined in the table above. In particular for 2023/24 I would highlight to Members the ongoing uncertainty caused by higher cost inflation on both revenue and capital spend”.

5.4 In relation to reserve levels, the **Chief Finance Officer** statement in the 2023/24 review of reserves report is:

5.5 **“I am satisfied that the Council’s General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council’s Financial Plans for 2023/24 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment.**

5.6 I fully support ensuring that a prudent level for the General Fund reserve at 5% of the Council’s net revenue budget remains an objective.

5.7 The adequacy of the Council’s reserves can be supported if the following actions are undertaken:

- a) That the Council maintains the focus on social care, both adults and children’s, as the biggest financial risks to the Council to deliver the identified improvements supported by a robust financial recovery plan and the sufficiency strategy;
- b) That the Council maintains its focus on the recovery plan for reducing the deficit on the Higher Needs Block and continues the safety value programme with DfE; and
- c) That the Council urgently assesses the financial viability of the projects with its capital plan.

6. Key Risks to the Council

6.1 There are three fundamental risks that the Council needs to continue to address:

6.2 Dedicated Schools Block Deficit

6.3 As previously outlined there is an ongoing overspend on the Higher Needs Block in the Dedicated Schools Grant where funding in the ring-fenced grant does not cover the cost and demand for the service. Within the Higher Needs Block of the Dedicated Schools Grant, it is projected that there will be a cumulative deficit on this Block at the end of

2022/23 of £12m. Under a “statutory override”, that is in place until March 2026, this deficit will be accounted as an “un useable” reserve pending future funding being identified.

- 6.4 There is a fundamental financial risk to the Council and schools associated with the increasing cumulative deficit on the Higher Needs Block that is part of the ring-fenced Dedicated Schools Grant which ultimately will have to be funded. If there is a risk that the Council will have to fund this deficit, then there would be a fundamental financial impact on the Council of the £12m cumulative deficit being required to be funded as well as any future year deficits.
- 6.5 The Council is in ongoing discussion with Department for Education (DfE) as part of the “safety value” programme. Under this programme, if agreed, the Council must submit, and then achieve, a deficit recovery plan. If this plan is achieved, then DfE will provide funding for the accumulated deficit. It is therefore essential that even if a “safety value” isn’t agreed that the recovery plan is implemented successfully, and the projected funding reductions achieved.
- 6.6 The Council is therefore being recommended to authorise the Chief Executive, in consultation with the Director of Children’s Services, Chief Finance Officer, Cabinet Member for Children’s Services and Cabinet Member for Finance, to approve any “safety value” agreement with Department of Education in relation to the Higher Needs Block.

6.7 Integrated Adult Social Care Agreement

6.8 The Council’s integrated arrangement for adult social care with the NHS has been in place since 2005. There is a funding agreement in place until March 2025 which requires a one-year notice period. Whilst both partners fully support the integrated arrangements and would wish them to continue, if the agreement were to end, the financial impact on the Council would be fundamental as the levels of spend on ASC under the fully integrated system are significantly higher than the funding the Council provides.

6.9 Over several years, the Council should be able to reduce this spend, however if the contract ended the initial financial impact on the Council would be significant as the existing packages of care for residents would need to be continued. As a guide the initial funding gap would be between £10m and £20m.

6.10 Capital Plan

6.11 A risk that has arisen in the past year linked to the economic conditions and high inflation is the impact on the Council’s capital plan. A combination of higher construction costs, contractor instability and higher borrowing costs make capital projects harder to be financially viable. This may result in the significant redesign of projects or the pausing or stopping of projects. Alternatively, the Council could approve additional funding for a project but at an ongoing revenue cost for the principal and interest costs. As a result, if schemes change or are stopped, expenditure incurred as capital may not now have an asset to which

these costs are attributable. They would therefore become abortive costs which would need to be charged to the revenue budget.

6.12 Linked to the issues on the viability of capital projects, if a scheme is unable to continue this may require the repayment of grants to the funding bodies with the costs incurred to date being abortive and a council cost. The Council's capital plan does rely on significant levels of central government funding such as Town Deal, Future High Streets Fund and Land Release Fund. Most grants have conditions on the purpose for the spend and the timing of that spend.