

**Meeting:** Council

**Date:** 7 December 2017

**Wards Affected:** All Wards

**Report Title:** Budget Monitoring 2017/18 – Quarter 2

**Is the decision a key decision?** No

**When does the decision need to be implemented?** n/a

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## 1. Purpose and Introduction

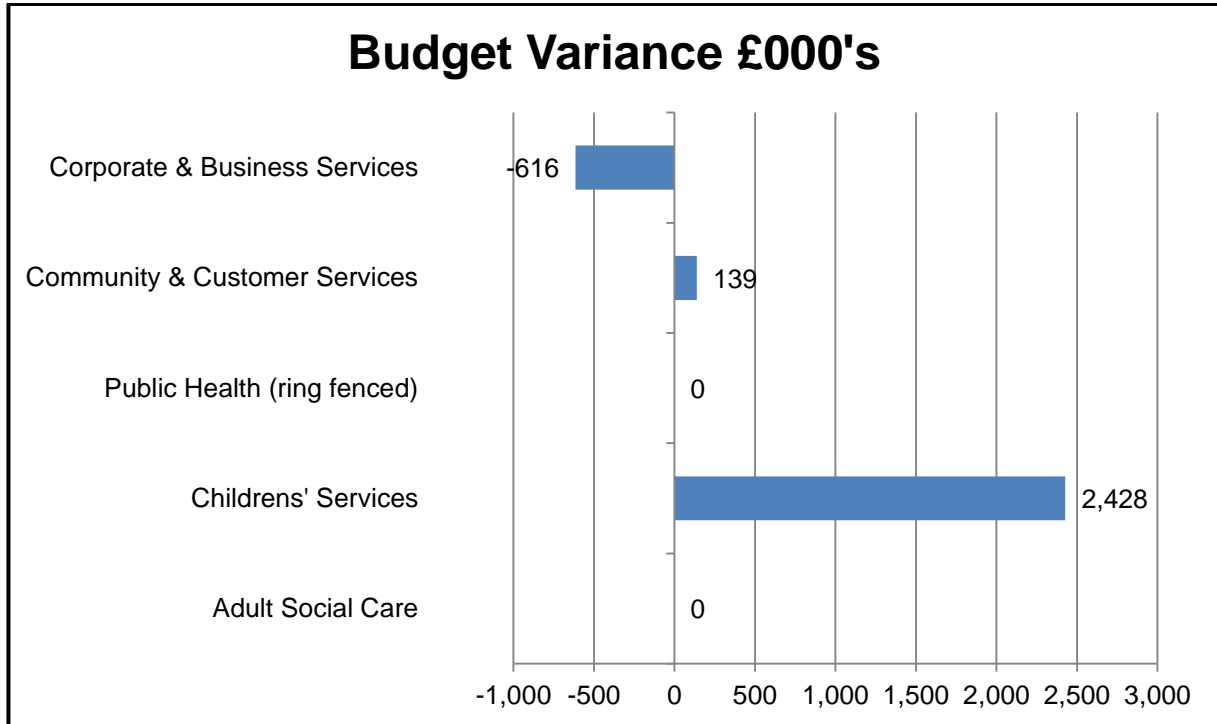
- 1.1. This report provides a high level budget summary of the Council's revenue and capital income and expenditure for the financial year 2017/18.
- 1.2. As at the end of quarter two 2017/18 the Council's **Revenue** budget is predicting an over spend of £1.9m primarily as a result of expenditure pressures in children's social care. This level of overspend is a cause for concern and has been reflected in the Mayor's budget proposals for 2018/19 which were published in October 2017. In the absence of any compensating savings in other services the Council will need to identify options to fund the over spend. The 2018/19 Review of Reserves report will address this issue.
- 1.3. The **Capital** Plan budget totals £191.8 million for the 4 year programme, with £104 million currently scheduled to be spent in 2017/18, including £68m on Investment Fund acquisitions, £15m on a number of regeneration projects, and £7m on the major Transport schemes (i.e. South Devon Highway/Western Corridor). The capital plan only reflects investments purchased to date, however this could increase by £133m if the expenditure increases to the level of the £200m approved investment budget. The Capital Plan requires £0.9 million from (new) capital receipts and capital contributions over the life of the Plan

## 2. Recommendation (s) / Proposed Decision

- 2.1. That the Council notes the current position and considers any comments and/or recommendations from the Overview and Scrutiny Board.
- 2.2. That the Council approves a loan to Torquay Academy of £0.225m to be repaid over seven years to fund additional teaching space at Torquay Academy.

### 3. 2017/18 Revenue Budget Summary Position

3.1 As at Quarter 2 the Council's revenue budget is predicting an over spend of £1.9m, primarily as a result of issues in Children's Services, offset in part by under spends or additional income on other services. A bar chart summarising the projected budget variance by service for 2017/18 is as follows:



#### Children's Services

3.2 The Children's Services' Medium Term Financial Strategy (MTFS) focuses on bringing the two main areas of expenditure – placements and staffing, in line with comparators over time. Our spending on placements is projected to be marginally above last year's outturn and has been significantly impacted by a recent sibling group of five children and two very complex young people requiring residential placements. Overall our Children Looked After population is static, notwithstanding this recent intake, which is in contrast to the national position which is showing year on year growth. The staffing outturn for the current year is currently projected to be broadly in line with last year's outturn and has been affected by recent investment to stabilise the Social Care workforce and ensure that children were not subject to repeated change in their allocated Social Worker. A dedicated Social Worker, funded by Transformation, will shortly be commencing to support children leaving care through Special Guardianship, alongside senior management oversight of placement decisions which is ongoing. Some of the staffing pressure is due to the overlap of agency with our International Social Workers which will reduce as the former are judged capable of taking up a full caseload.

- 3.3 Funding for schools activities are primarily funded through 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 17/18 these “blocks” are early years, higher needs and schools. The higher needs block has in the past 12 months been under financial pressure as a result of an increasing level of referrals from schools for higher needs support for children resulting in an over spend in 2017/18 of £1.1m. In 2016/17 the over spend in the higher needs block was funded from the DSG reserve.
- 3.4 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 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 have agreed an allocation of 0.5% of the 18/19 schools block of the DSG (approx. £0.350m) to part fund this overspend. The Council considered submitting to Department of Education a request (a disapplication) to Department of Education that additional funds are transferred from the schools block in 2018/19 to fully fund the 2017/18 overspend. However this was not submitted as it was considered that a better approach to reducing this demand, (and therefore cost), is to work directly with schools to jointly work on a solution to this issue.
- 3.5 The increase in costs from higher needs block is not solely a Torbay issue but a pressure that a number of upper tier councils are facing. In essence the rising demand and cost for higher need support has not been matched by an appropriate increase in funding.

#### Adults Services

- 3.6 The Council and the other two partners have signed a revised risk share which caps the Council risk. It should be noted however that the CCG need to get approval for this from NHSE as their regulator. On the assumption that the formal agreement is completed then the budget variance for the Council’s contribution will be nil for 2017/18.
- 3.7 The revised risk share is as previously reported in that for 2017/18, (2018/19 and 2019/20), the Council is to fund a (fixed) amount of £3.1m each year that is in addition to the previously agreed annual fixed amount contained in the previous RSA with no exposure to any further ICO budget variances. This fixed payment is to be funded from the allocation in the 2017/18 budget for the Council’s exposure to its 9% risk share plus an allocation of £0.9m from the £3.8m Improved Better Care Fund (IBCF) allocation to the Council in 2017/18.
- 3.8 The IBCF is to be invested in line with national guidance. The remaining balance of the £3.8m of the IBCF in 2017/18 was to be allocated as £0.9m for care home fees, £1.0m for targeted investment in adult social care improvements and £1.0m held in reserve for the ICO to be invested in line with the guidance.
- 3.9 The Council’s appeal on the Judicial Review on Care Home fees was heard in June 2017, the judgement received in October upheld the Council’s appeal. Officers are

evaluating the implication of the judgement and any financial consequence will be reported to Members as part of the 2018/19 Review of Reserves report and the Mayor's final budget proposals in January 2018.

### Investment Property

- 3.10 In the second quarter 2017/18 the Council purchased two further investment properties.
- 3.11 In respect of one of these investments it was decided that "the net income received in 2017/2018 be ring fenced for use on regeneration in Torbay". This is estimated to be £0.2m and will be transferred to the Council's regeneration reserve.
- 3.12 As the Council purchases these properties the relevant budgets in both treasury management and investment properties will be updated to reflect the current borrowing and net income position.
- 3.13 Detailed Position

The budget position for each service is shown in the table below:

Service	2017/18 Budget			Forecast Full Year Variance
	Expenditure £000s	Income £000's	Net £000's	
Adult Social Care	49,520	(10,479)	39,041	<b>0</b>
Children's Services	77,460	(48,733)	28,727	<b>2,428</b>
Public Health	11,115	(1,479)	9,636	<b>0</b>
<b>Joint Commissioning</b>	<b>138,095</b>	<b>(60,691)</b>	<b>77,404</b>	<b>2,428</b>
Community Services	30,652	(6,840)	23,812	<b>(11)</b>
Customer Services	73,716	(70,225)	3,491	<b>150</b>
<b>AD Community &amp; Customer Services</b>	<b>104,368</b>	<b>(77,065)</b>	<b>27,303</b>	<b>139</b>
Commercial Services	6,481	(1,969)	4,512	<b>200</b>
Finance	18,709	(16,708)	2,001	<b>(644)</b>
Business Services	8,602	(13,179)	(4,577)	<b>102</b>
Regeneration & Assets	8,959	(5,515)	3,444	<b>(274)</b>

<b>AD Corporate &amp; Business Services</b>	<b>42,751</b>	<b>(37,371)</b>	<b>5,380</b>	<b>(616)</b>
	Expenditure	Income	Net	
	£000s	£000's	£000's	£000's
<b>Gross Revenue Budget</b>	<b>285,214</b>	<b>(175,127)</b>	<b>110,087</b>	<b>1,951</b>
Sources of Funding	-	(110,087)	(110,087)	<b>(11)</b>
<b>Net Revenue Budget</b>	<b>285,214</b>	<b>(285,214)</b>	<b>0</b>	<b>1,940</b>

A narrative of the position in each service area is as follows:

<b>Service</b>	<b>Variance to Budget £m</b>	<b>Main Variances in 2017/18</b>
Adult Social Care	0	As paragraph 4.6 above.
Children's Services	2.4	As paragraph 4.2 above
Public Health	0	Ring fenced budget
Community and Customer Services	0.1	Community Services:  Income budgets not being achieved. Projected over spends on events, CCTV, concessionary fares and Torre Abbey. Offset by salary, waste tonnages, housing options and temporary accommodation savings. Also included are assumed savings from the new contract with Parkwood Leisure for Torbay Leisure Centre and the Velopark due to be in place during 2017/18.
Corporate and Business Services	(0.6)	Projected over spend on coroner, legal services, spatial planning and lower than forecast car park income, offset by additional confirmed investment properties to date.  Expected savings in pension payments (both discretionary and deficit related) based on expenditure profile to date and the release of a number of contingency budgets.
Sources of Funding	0	
<b>Total</b>	<b>1.9</b>	Projected over spend

3.14 Risks & Sensitivity

3.15 The predictions for the full year outturn in this report are based on six months of financial information and will be subject to changes in both assumptions and demand.

3.16 Historically the Council's overall position improves in the last quarter of the year as actual expenditure and income for the year is finalised and impact of some future year savings are realised in year.

3.17 There are a number of financial risks facing the Council. Key risks are shown below:

<b>Risk</b>	<b>Impact</b>	<b>Mitigation</b>
Achievement of approved savings for 2017/18	High	17/18 Budget monitoring and "saving tracker" monitored by senior staff.
Potential impact and costs of judicial review for care home fees	Low	Judgement in Council's favour – October 2017
Risk that current ASC/ICO proposals are not formally agreed.	Low	The 3 bodies of CCG, ICO and Council have signed a revised risk share which caps council risk but CCG need be get approval from NHSE as their regulator.
Achievement of Childrens' Services cost reduction plan	High	Regular monitoring of performance and recovery plan.
Identification, and achievement, of £17.4m of savings for 2018/19 to 2020/21 per Medium Term Resource Plan April 2017	High	Transformation Team set up to coordinate the implementation of potential transformation savings.  Mayors 2018/19 budget proposals released in October 2017
Additional demand for services particularly in childrens' social care	High	17/18 Budget monitoring, use of service performance data and recovery plan.

#### **4. 2018/19 Budget Process**

4.1 The Mayor presented his budget proposals for 2018/19 as planned on the 23<sup>rd</sup> October 2017 for consultation. The 2018/19 budget will be presented to Council for approval in February 2018.

4.2 The Mayor's 2018/19 budget proposals are available on the Council's website:

<http://www.torbay.gov.uk/council/finance/budget/budget-201819/>

#### **5. Balance Sheet issues**

##### Borrowing

5.1 Since end of June 2017 the Council has borrowed a further £55m, primarily to fund investment property acquisitions. Total borrowing as at 1<sup>st</sup> November 2017 was £223m.

5.2 The interest cost and voluntary repayment of principal on this new borrowing will increase revenue expenditure, which, in 2017/18 will be more than offset by increased rental income from the investment property.

5.3 Council in September 2017 approved a (revised) 2017/18 operational boundary of £310m comprising £290m for external borrowing and £20m for other liabilities. This is the limit beyond which external borrowing is not normally expected to exceed during the year but this is a working limit which can be varied depending on schemes and approvals.

5.4 The Treasury Management midyear review was presented to Council on the 19<sup>th</sup> October, this report contained more information on the Council's current and future borrowing requirements.

5.5 2018/19 Capital Strategy will report explicitly on the delivery, affordability and risk associated with that strategy in particular the level of borrowing.

##### Council Subsidiary Companies

5.6 The Council has interests in a number of companies. The financial performance for 2016/17 of these companies is included in the Council's statement of accounts (link below).

<http://www.torbay.gov.uk/council/finance/statement-of-accounts/>

The Council has now set up Torbay Housing Company Ltd for the aim of buying domestic dwellings for rent in line with the Council's housing strategy.

## Debtor – Write offs

5.7 The total value of debtor write offs in the second quarter of 2017/18 was:

Service	Number of records written off	Value of write offs £000's	Number over £5,000
Council Tax	857	257	0
NNDR	59	272	12
Housing Benefit	197	83	5

## 6. Capital Plan Summary Position

- 6.1 This is the monitoring report for the second quarter of 2017/18 and includes variations arising in this quarter to the end September 2017. The 4-year Capital Plan Budget is £191.8 million, covering the period 2017/18 – 2020/21. This is primarily fully funded but still relies upon the generation of £0.9m of capital income from capital receipts and capital contributions over the life of the Capital Plan.
- 6.2 There is a project to provide additional space at Torquay Academy to meet existing demand for secondary school places. The Academy have requested the scope of works be increased to provide additional teaching space for which they would provide additional funds of £0.225m however they would like to arrange this by using a loan facility from the Council to be repaid over 7 years as an unsecured loan at market rate. If this loan request is approved, it is planned to complete these works by August 2018 and the additional budget and funding have been added to next financial year.
- 6.3 The movements in the estimate of expenditure in 2017/18 on the Capital Plan between the last monitoring report at June 2017 of £84.2 m and the current budget for 2017/18 of £104.0 m are shown below.

Scheme	Changes £m	New Schemes £m	Reason
<b>Budget changes since last report (Q1 2017/18 - £84.2m)</b>			Capital Plan Update – 2017/18 Quarter 1 (Report 13 Sep 2017)
<b>Protecting Children:</b>			
Capital repairs & maintenance	(0.1)		Saving transferred to Education Review projects for reallocation
Education Review Projects	0.1 (0.2)		Net transfer of budgets. Re profile spend to 2018/19



Torquay Secondary School places	0.2 (0.2)	0.2 (0.2)	Additional teaching space funded by school to be spent in 18/19
<b>More Prosperous Torbay</b>			
Investment Fund		20.8 1.0	Investment Property acquisition. Loan approved by Investment Committee September 2017 to support adult social care
Transport – Edginswell Station	(0.1)		Delayed to 2018/19 pending funding options
<b>Attractive and Safe place</b>			
Parkwood Leisure loan re TLC	(1.0)		Reviewed likely expenditure pattern to be in part in 2018/19
Paignton Harbour Lights Redevelopment	(0.6)		Redevelopment expected in 2018/19
Princess Gardens Fountain		0.1	Major structural repair work agreed by officers to be funded from site related income and s106 contributions
<b>Corporate Support</b>			
Essential capital repairs	(0.4)		Review of likely expenditure needs
Enhancement of Development sites	(0.1)		Part budget transferred to next year
Flexible Use of Capital Receipts		0.3	To reflect 2017/18 budget to use capital receipts to fund costs of service reform
<b>Estimate – Quarter Two 2017/18, total £104.0m</b>	<b>(2.4)</b>	<b>22.2</b>	

## 7. Receipts & Funding

7.1 The funding identified for the latest Capital Plan budget is shown in Appendix 1. This is based on the latest prediction of capital resources available to fund the budgeted expenditure over the next 4 years.

## 8. Grants

8.1 Since the last Capital Plan update (Quarter 1 2017/18) reported to Council in September 2017, the Council has not been notified of any additional capital grant allocations.

## 9. Capital Receipts

9.1 The approved Plan relies on the use of £3.4m capital receipts. The Council already holds a capital receipts reserve of £2.1 m at 31 March 2017 and a further £0.4m was received by the end of September 2017, leaving a target of £0.9m still to be achieved.

- 9.2 This target is expected to be achieved provided that approved disposals currently “in the pipeline” are completed, the Council continues with its disposal policy for surplus and underused assets no more new (or amended) schemes are brought forward that rely on the use of capital receipts for funding.
- 9.3 The Government has allowed more flexible use of capital receipts to fund revenue expenditure on projects which will generate ongoing revenue savings. In 2017/18 the Council has budgeted to use £0.3m capital receipts in this way and a further £0.3m in 2018/19.

## **10. Capital Contributions – S106 & Community Infrastructure Levy**

- 10.1 Income from Section106 capital contributions so far in 2017/18 amount to £0.2 million.

### **Appendices:**

Appendix 1 – Capital Plan 2017/18 – Performance Summary