

Meeting: Cabinet

Date: 17 December 2019

Wards Affected: All Wards

Report Title: Budget Monitoring 2019/20 – Quarter Two

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

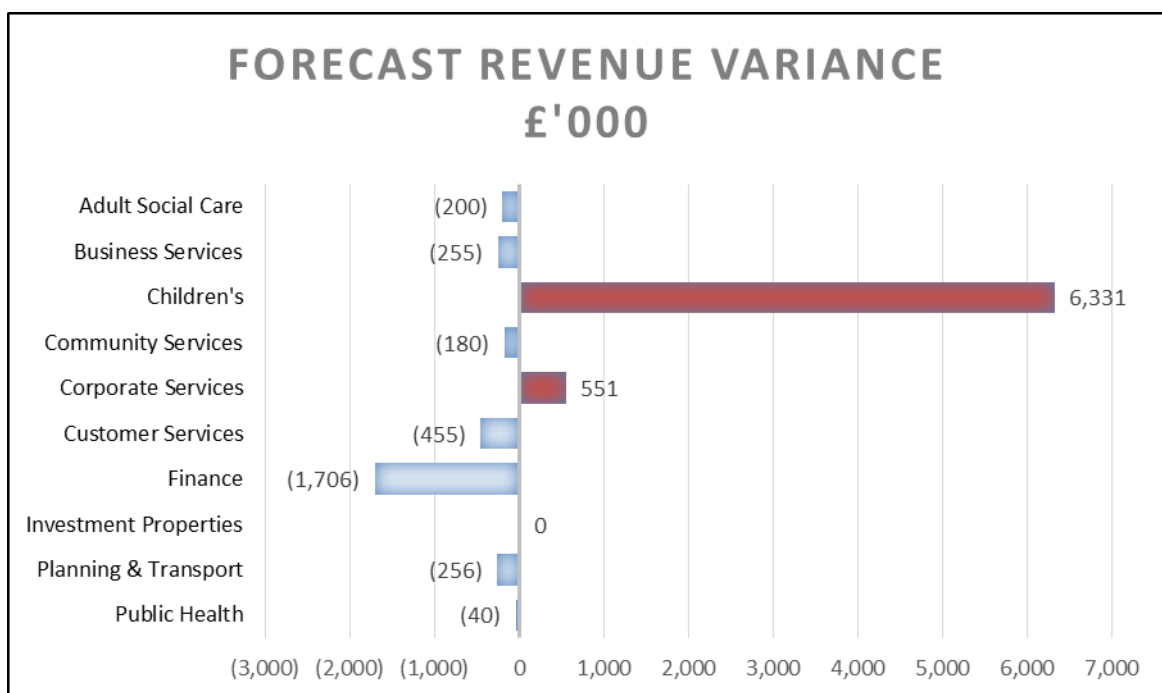
1. This report provides a high level budget summary of the Council's forecasted revenue and capital income and expenditure for the financial year 2019/20. This report is based on figures as at the end of Quarter 2, 30th September 2019.
2. The Council's **Revenue** budget remains under significant pressure. The Council is forecasting an overspend on its service expenditure at Quarter 2 of £3.8m. However this does represent a slight decrease compared with Quarter 1 report.
3. In order to deliver a balanced budget against the forecast overspend, additional one off funding and use of reserves has been identified.
4. Children's Social Care remains the main source of financial pressure, forecasting an overspend at Quarter 2 of £6.3m.
5. The Capital Plan budget totals £391m for the 4 year programme, with £127m currently scheduled to be spent in 2019/20, including £80m on Investment Fund acquisitions, £19m on a number of Regeneration projects, and £5m on major Transport schemes. At this point (30 Sept 2019) the Capital Plan now requires £6.3 from (new) capital receipts and capital contributions over the life of the Plan in order to be able to deliver all that is planned.

2. Recommendation (s) / Proposed Decision

- 2.1 That the Cabinet notes the latest position for the Council's revenue outturn position and mitigating action identified and considers any comments and/or recommendations from the Overview and Scrutiny Board.
- 2.2 That the Cabinet note the latest position for the Council's Capital expenditure and funding for 2019/20 and considers any comments and/or recommendations from the Overview and Scrutiny Board.

1. 2019/ 20 Revenue Budget Summary Position

- 1.1. The below graph shows a visual breakdown, highlighting budget variance for each service,



Children's Social Care

- 1.2. The current forecast of £6.3m overspend represents an increase of £2.1m since Quarter 1. This highlights the extent of the continued pressure faced within Children's Services.
- 1.3. The main pressure area is Looked After Children (LAC). The overall LAC numbers have decreased slightly since the start of the financial year, from 357 in April 2019 to 351 at the end of September 2019, which demonstrates that there has been effective oversight around children brought into care, ensuring that this is only done when alternative options have been exhausted. However, despite this headline reduction the mix of placements has seen both an increasing number of residential placements and increased complexity of need, which result in increased cost pressures.

- 1.4. At the end of September 2019 there were 44 children in residential placements, compared with 28 at the same point last year. Work continues within the service to ensure that each child has a clear plan ensuring their needs and outcomes are being met in the most appropriate setting and wherever possible, that these are met in a family based setting.
- 1.5. The number of residential placements remains a significant risk. These are the highest cost placement type, where typical costs per child are around £5,000 per week. The figures in this report factor in individual plans for the children who are currently looked after. Increases to placement numbers without a reduced demand elsewhere would further increase the service overspend as would any extensions of placements where there are planned end dates.
- 1.6. Additional corporate resources and support continues to be available to support the senior leadership team of Children's Social Care. This includes weekly meetings chaired by the Chief Financial Officer with the Chief Executive, Director for Children's Services and Director of Corporate Services and Deputy Head of Finance. These meetings are focused on the financial recovery plan of the service. This recovery will be underpinned by the implementation of best practice across all aspects of operational service delivery.

Higher Needs Block – Special Education Needs

- 1.7. The schools' higher needs block in the Dedicated Schools Grant (DSG) has been under financial pressure as a result of an increasing level of referrals from schools for higher needs support for children. For 2019/20 there is a forecast in-year overspend of £0.9m, after the one off £1.4m "disapplication" transfer of funds between the funding blocks in the DSG. 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 that the Council will fund. The cumulative deficit balance brought forward from 2018/19 was £2.7m. As a result the DSG reserve is forecast to be a £3.6m deficit by the end of 2019/20.
- 1.8. The Spending Round announced in September allocated £700m nationally to support Special Education needs., Torbay's allocation for 2020/21 is £1.5m which, although welcomed is not sufficient to meet the level of demand faced by the Higher Needs Block.
- 1.9. Representatives from the School Forum are arranging meetings with the Education & Skills Funding Agency (ESFA) to discuss the proposed financial recovery plan that was submitted to the ESFA earlier in the year.

£300m Investment fund

- 1.10. Investment Fund has spent £155m in previous years, and has £80m profiled for spend this year. Further detail is available in Appendix 2.
- 1.11. On behalf of the Council, Torbay Development Agency (TDA) are actively identifying investment opportunities. These opportunities will be presented to Cabinet for a decision as to whether or not to progress if and when they are identified as viable investments. The final purchases are subject to due diligence checks, including independent valuations. The Council continues to set the investment boundary to the Greater South West peninsula and the Functional Economic Market Area (FEMA).

Economic Growth Fund

- 1.12. At Cabinet on 1st October 2019 the criteria for use of the Economic Growth Fund was approved. Approval of projects brought forward has been delegated to Cabinet.
- 1.13. The Fund, combined with the previous Town Centre Regeneration approval of £25m, gives a total budget of £125m. The only project “on site” is the Harbour View hotel. Further detail is available in Appendix 2.

Service Budgets

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

| Torbay Council Revenue | Budget | Forecast | Variance | Variance reported at Q1 | Movement |
|---------------------------|----------------|----------------|--------------|-------------------------|--------------|
| Q2 2019/20 | £000s | £000's | £000's | £000's | £000's |
| 1. Adult Social Care | 38,747 | 38,547 | (200) | (200) | 0 |
| 2. Business Services | 15,140 | 14,884 | (255) | 483 | (738) |
| 3. Children's Services | 40,697 | 47,028 | 6,331 | 4,205 | 2,126 |
| 4. Community Services | 2,871 | 2,691 | (180) | (62) | (118) |
| 5. Corporate Services | 2,766 | 3,317 | 551 | 275 | 276 |
| 6. Customer Services | 1,176 | 722 | (455) | (256) | (199) |
| 7. Finance | (8,272) | (9,978) | (1,706) | (466) | (1,240) |
| 8. Investment properties | (4,135) | (4,136) | (0) | 0 | (0) |
| 9. Planning and Transport | 12,557 | 12,301 | (256) | 0 | (256) |
| 10. Public Health | 9,822 | 9,782 | (40) | (40) | 0 |
| Revenue total | 111,367 | 115,157 | 3,790 | 3,939 | (149) |

| Mitigating Actions | £'000 |
|--------------------------------------|----------|
| 11. Use of Reserves | (3,570) |
| 12. 2020/ 21 savings brought forward | (220) |
| Net Overspend / (underspend) | 0 |

1.15. A narrative of the position in each service area is as follows;

1. Adult Social Care - Underspend £200k

The majority of this budget is spent against a fixed contract with the ICO. Within the remaining discretionary budgets there are a number of identified savings which have been offered to mitigate the in-year financial position for the Council.

2. Business Services – Underspend £255k

There has been a significant improvement to the financial position of Business Services compared with Quarter 1. Within Car Parking the shortfall on income following the summer months is now £57k, which represents an improvement of £180k compared with the figures at Quarter 1. There are also savings from Waste disposal, amounting to £200k as a result of reduced household waste being sent to the Energy from Waste plant. There are a range of other savings and efficiencies identified across Business Services including the cessation of non-essential spend.

3. Children's Services – Overspend £6.331m

There is a forecast overspend of £5.6m associated with placements. The total spend on Agency and temporary staff is forecast to be £3.7m. At the end of September there were 44 vacant posts which resulted in use of agency staff. There has also been additional temporary staff used to provide additional senior capacity in order to support the service to address the outcome of most recent Ofsted inspection. This improvement work will also contribute to the service's financial recovery, however there are no "quick wins" anticipated, savings are expected over the medium term. The overall financial position has been partially offset by the application of the Troubled Families grant.

4. Community Services – Underspend £180k

Housing services is forecasting an underspend of £100k due to use of the Flexible Homeless Support grant which contributes to the costs of temporary accommodation and Housing Options. Within Community protection there are a number of vacancies across this service area which contribute to the overall underspend.

5. Corporate Services – Overspend £551k

Legal services are also making use of Agency staff, with a forecast spend of £240k. These staff required so that the service is able to meet the caseload requirements of the organisation, namely Children's and Adult Social work. Currently there is a forecast overspend of £83k associated with the Coroners service which is provided by Plymouth City Council. There is also a £240k shortfall of income, which is caused by £160k from the Print & Post service and a further £80k shortfall on income targets associated with work of the transformation team. In line with the corporate position, all non-essential spend has been ceased.

6. Customer Services – Underspend £455k

Revenues and Benefits have a number of staff vacancies and have received one-off funding resulting in an underspend of £239k. Within IT there is a forecast underspend of £183k brought about by revised recruitment timescales and reduction in planned spend.

7. Finance – Underspend £1.706m

A number of “corporate” budget changes are being reported under the Finance service, these include;

- £550k was transferred to the Comprehensive Spending Review Reserve in order to be released in 2019/20 for issues in Children’s Social care
- £415k of a saving associated with Treasury Management activities
- £300k of additional monies from the Devon wide business rates retention pool
- £300k set aside during the 2019/20 budget process has been released to be used to fund known pressures

8. Investment Properties – Breakeven £0k

Overall Investment properties is forecast to meet its income target.

9. Planning & Transport – Underspend £256k

A reduced contribution for concessionary fares of £100k has been achieved. There are also revenue savings within Highways of £150k which is associated with additional work being recharged to capital.

10. Public Health – Underspend £40k

No material variances

4 Mitigating actions

1. The projected overspend within revenue **before** the application of all mitigating actions is £3.8m. As a result of the increased cost pressures from Children’s Service all the previously identified mitigating actions have been required in order to stabilise the financial position. As a result the Council’s S151 officer has identified further mitigating actions in order to deliver a balanced budget, however these options predominantly rely upon use of reserves, namely.

(i) Use of reserves – £3.570m

The net in year projected overspend has to be funded. In order to achieve this, requires the utilisation of a number of reserves that have been built up in previous financial years to be applied or drawn down in year. It is important to note that this also includes reducing the CSR reserve to below the target level of £2m to achieve a balanced budget position. Should the financial position improve during the year, these one off funding items will be returned to reserves.

(ii) 2020/21 Savings brought forward – £220k

A number of savings previously identified for delivery in 2020/21 are being brought forward. The achievement of these savings does not require cessation of services and are not matters which require a Council decision. A total of £0.96m was identified to be achieved through reviews of recharges to capital, maximisation of grant funding, and the application of the revised and approved MRP calculation. Work continues to deliver the final £220k.

2. In respect of the moratorium on non-essential spend, in keeping with last financial year the Chief Finance Officer has arranged additional scrutiny in order to monitor and challenge all orders and contracts placed by officers across the Council.
3. There remains the risk that further mitigation will be required should demand for Children's Social Care increase in the second half of the financial year.

5. Medium Term Resource Plan

- 5.1. As detailed in section 3 & 4, the revenue position is currently being contained through increased use of reserves. The total identified use of reserves in year is over £4m.
- 5.2. Whilst this is possible within this financial year it leaves the Council below the target minimum level on its CSR Reserve, and therefore leaves limited options to address any unexpected cost pressures in future years.
- 5.3. As part of the budget process a Review of Reserves document will provide Members with the S151 Officer's proposed strategy regarding reserves. This document will provide details of how any remaining reserves will be allocated next year, and also outline the medium term plans which will be needed in order to rebuild the reserves that will have been depleted this financial year.
- 5.4. A robust medium term resource plan is crucial to ensuring the future funding gaps for 2021/ 22 and 2022/ 23 are addressed. The critical need for this plan is compounded by the risks associated with the Fair Funding Formula which is not anticipated to provide any respite in addressing Torbay's financial pressure. In September 2019 MHCLG announced the deferral to 2021/22 of the proposed changes to the NNDR retention system and funding formula.
- 5.5. Central Government are scheduled to finalise the 2020/21 Local Government Funding Settlement in late December 2019 after the General Election.

6. Risks & Sensitivity

6.1. There are a number of financial risks facing the Council as shown below:

| Risk | Impact | Mitigation |
|---|--------|--|
| Fair Funding Formula | High | Development of a robust MTRP to address the expected impact on Torbay's funding. |
| Identification, and achievement, of £18m of savings for 2020/21 to 2022/23 per Medium Term Resource Plan March 2019 | High | Finance colleagues are working with the transformation team coordinate the implementation of potential transformation savings. Senior Leadership Team and Cabinet will need to consider options for future years. |
| Delivery of Children's Services cost reduction plan | High | Weekly meetings have been convened to monitor the current rate of delivery against the identified actions from the recovery plan. |
| Unable to recruit staff and need to use agency staff. | High | Recruitment & retention of Social Work staff, particularly in safeguarding is one of the core priorities for the Senior management team within Children's Services. |
| Additional demand and cost pressures for services particularly in children's social care | High | 2019/20 Budget monitoring, use of service performance data and recovery plan. |
| Delivery of approved savings for 2019/20 | Medium | Further to regular budget monitoring for all budget holders, the Council's Senior Leadership Team receive monthly updates on the 2019/20 position including a savings tracker for each of the approved savings. |
| Pressure achieving income targets in some services | Low | A small number of services are not meeting their income targets (which increase by 3% each year). |
| Investment Property Income changes | Low | Regular review of income and tenant negotiation |

7. Balance Sheet

Council Subsidiary Companies

- 7.1. The Council has interests in a number of companies. The financial performance for 2018/19 of these companies is included in the Council's statement of accounts (link below). <http://www.torbay.gov.uk/council/finance/statement-of-accounts/>
- 7.2. All of these companies form part of the Council's group boundary, therefore Members should be aware of the assets and liabilities of these companies.

8. Debtor – Write offs

- 8.1. The total value of debtor "write offs" in quarter 2 of 2019/20 were

| Service | Number of records written off | Value of write offs £000's |
|-----------------|-------------------------------|----------------------------|
| Council Tax | 812 | 247 |
| NNDR | 21 | 36 |
| Housing Benefit | 79 | 29 |

- 8.2. EXEMPT Appendix 1 contains details of write offs over £5,000

- 8.3. As at 30th Sep 2019, the total percentage of the current year liability collected was:

| Collection Fund | 2019/ 20 | For the same period in 2018/19 |
|-----------------|----------|--------------------------------|
| Council Tax | 54.31 | 54.72 |
| NNDR | 53.71 | 56.25 |

9. Capital Plan Update

- 9.1. The overall funding position of the 4-year Capital Plan Budget of £391 million, covering the period 2019/20 – 2022/23, is primarily fully funded, but includes a requirement to generate £6.7m of Capital income from capital receipts and capital contributions over the life of the Capital Plan. The required income has increased since last reported as a result of the proposals for Crossways which require funds from capital receipts.
- 9.2. The Government has allowed flexible use of capital receipts to fund revenue expenditure on projects which will generate ongoing revenue savings. In 2017/18 the Council used £0.3m capital receipts and £0.357m in 2018/19 in this way with another £0.057m budgeted in 2019/20. There are no further plans to use this permitted flexibility.
- 9.3. A recent decision at Council on 26th Sept 2019 approved a £23m scheme to deliver a mixed use development with Extra Care Housing units and retail options at Crossways site in Paignton. This scheme will utilise existing Adult Social Care and Affordable Housing funding resources as well as new borrowing and some assumed future grant allocations and capital receipts. The scheme budget is shown over future years in the Capital Plan.
- 9.4. The movements in the estimate of expenditure in 2019/20 on the Capital Plan between the last monitoring report at June 2019 of £78.6m and the current approved budget for 2019/20 of £127.1m are shown below.

10 Updates to Capital Plan

| Scheme | Variation in 2019/20 | Change £m | Reason |
|---|-----------------------------------|--------------|---|
| Estimate as at Q1 2019/20 | | 78.6 | Capital Plan Update – 2019/20 Quarter 1 (Report Cabinet 1 Oct 2019) |
| Budget changes since last report (Q1 2019/20) | | | |
| Working towards a more Prosperous Torbay | | | |
| Investment Fund | Re profile budget | 50.0 | Budget brought forward from future years to match expected cash flow. |
| Oxen Cove Jetty | Revised budget | 0.5 | Increased resources required |
| Town Centre Regen – Retail opportunity. | Reduced budget | (0.4) | Reduction in likely total cost of purchase including acquisition costs. |
| South Devon Highway | Part of budget moved to next year | (1.3) | Latest DCC estimates of cash flow |
| | | 48.8 | |
| Attractive and Safe place | | | |
| Flood Alleviation schemes | Re profile budgets | (0.3) | Reviewed likely expenditure pattern |
| Libraries Unlimited | Budget removed | (0.1) | Work now being charged through revenue account. |
| | | (0.4) | |
| Protecting children and giving them the best start in life | | | |
| IT replacement - Childrens Case Management System | Re profile budget | (0.3) | Part of budget to 2020/21 |

| | | | |
|---|------------------|--------------|--|
| | | (0.3) | |
| Corporate Support | | | |
| Corporate IT Developments | Increased budget | 0.2 | Additional funding from Reserves |
| IT Equipment-TOR2 | New budget | 0.2 | Agreed as part of Transformation project |
| | | 0.4 | |
| Revised forecast capital spend for 2019/20 | | 127.1 | |

Working towards a more Prosperous Torbay

- 9.5. Investment Fund – Based on the current activity and additional acquisitions now expected to take place this financial year, part of the budget held in 2020/21 has been transferred to the current year.
- 9.6. South Devon Highway – Devon CC have provided details of their latest estimates of remaining payments which indicate £1.3m of budget should be transferred to next year. The estimates also indicate that Torbay's total contribution to the scheme could now be £1.3m over the current budget, which is £0.3m higher than potential overspend reported last quarter. If this is accurate, additional funding, possibly Prudential Borrowing, will be required. No changes have yet been made to the budget or funding resources in the Capital Plan until the situation is clearer.
- 9.7. Town Centre Regeneration – Retail opportunity – following negotiations and revised arrangements for this proposed acquisition and capital works, it is expected that the budget will be reduced by £0.4m.
- 9.8. Oxen Cove Jetty – Work has been completed on this additional landing facility at Brixham Harbour. Final accounts are being agreed with the main contractor and the budget has been increased by £0.534m to a total of £2.5m. This increase primarily reflects the increased grant resources obtained for the scheme.

Attractive and Safe Place

- 9.9. Flood Defence schemes – Projects at Cockington and Monksbridge have been delayed by various objections. Consequently expenditure plans now indicate that £0.3m of their budgets are transferred to next financial year.
- 9.10. Libraries Unlimited – the work to upgrade IT for Libraries Unlimited is now being funded from revenue using S106 resources so the budget and funding have been removed from the Capital Plan.
- 9.11. RICC Improvements – Council 18 July 2019 approved prudential borrowing funding of £2.149m for improvements at the Riviera International Conference Centre to facilitate a new proposed management agreement with effect from 31 March 2020. The works will likely occur in the next financial year so the budget is now shown in 2020/21.

Supporting Vulnerable Adults

- 9.12. Adult Social Care – funding identified under this heading will be transferred out and used to facilitate the proposed mixed use redevelopment at Crossways, Paignton and Torre Marine, Torquay.
- 9.13. Affordable Housing - £1.7m resources have been transferred to support the mixed use scheme at Crossways which will include affordable housing units.

Protecting children and giving them the best start in life

- 9.14. IT Replacement (Children's Case Management) - £0.3m of the budget for the replacement case management system is likely to be spent in the next financial year so the budget has been adjusted accordingly.

Corporate Support

- 9.15. Corporate IT Developments – increased budget of £0.3m to enable upgrade work, funded from available Reserves.
- 9.16. IT Equipment –TOR2 - As part of the Transition project for conclusion of the TOR2 contract, Council agreed to provide £0.6m funds from Reserves to facilitate operational changes. Currently £0.15m has been identified for potential capital items including upgrades of IT equipment to support new working arrangements.

10. Receipts & Funding

- 10.1. 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. A summary of the funding of the Capital Plan is shown in the Table below:

| Funding | 2019/20 £m | 2020/21 £m | 2021/22 £m | 2022/23 £m | Total @ Q2 19/20 £m |
|-----------------------|-------------------|-------------------|-------------------|-------------------|----------------------------|
| Unsupported Borrowing | 107 | 127 | 64 | 50 | 348 |
| Grants | 15 | 10 | 5 | 0 | 30 |
| Contributions | 1 | 1 | 0 | 0 | 2 |
| Revenue | 1 | 0 | 0 | 0 | 1 |
| Reserves | 2 | 0 | 0 | 0 | 2 |
| Capital Receipts | 1 | 2 | 5 | 0 | 8 |
| Total | 127 | 140 | 74 | 50 | 391 |

12. Grants

- 12.1. Since the last Capital Plan update (Quarter 1 2019/20) reported to Cabinet in October 2019, the Council has not been notified of any additional capital grant allocations.

13. Capital Receipts

- 13.1. The approved Plan relies on the use of £6.7m capital receipts. The Council has received £0.4m from asset disposals as at the end of September 2019.
- 13.2. Consequently the remaining Capital Receipts target to fund the Capital Plan stands at £6.3m still to be achieved. This target is expected to be achieved provided that:
- expected disposals of land and/or assets are completed
 - the Council continues with its disposal policy for surplus and underused assets and,
 - no more new (or amended) schemes are brought forward that rely on the use of capital receipts for funding.

- 13.3. The Capital Receipt requirement has increased since the last report arising from the funding package for proposals at Crossways, Paignton which assumes £4.4m from future capital receipts (sales of accommodation units).
- 13.4. 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 used £0.3m and £0.357m in 2018/19 in this way, with a further £0.057k budgeted in 2019/20. There are currently no further plans to utilise this permitted flexibility.

14. Capital Contributions – S106 & Community Infrastructure Levy

- 14.1. The Council's Capital Strategy states that capital contributions are applied to support schemes already approved as part of Capital Plan and are not allocated to new schemes unless the agreement with the developer is specific to a particular scheme outside the Capital plan.
- 14.2. Income from Section 106 capital contributions so far in 2019/20 amount to £0.8m, but these are largely already earmarked for use on existing schemes
- 14.3. Council has approved a Community Infrastructure Levy (CIL) scheme which will provide funds for infrastructure improvements linked to the proposed developments and for the "neighbourhood proportion". The main capital project identified for CIL receipts is the South Devon Highway. Some CIL payments are beginning to be received.

15. Borrowing and Prudential Indicators

- 15.1. The Council has taken borrowing of £55m during the quarter, this has primarily been to finance Investment Fund property acquisitions and Regeneration projects. As at 30 September 2019 the Council's total borrowing was £370m. The Operational limit is set at £470m in the approved Treasury Management Strategy. This limit is set based on the expected maximum borrowing the Council would undertake in order to meet its Capital Financing Requirement.
- 15.2. The Treasury Management mid-year review was presented to Council on the 24th October 2019 and contains more information on the Council's current and future borrowing requirements.
- 15.3. In November HM Treasury, without consultation, increased the margin on PWLB rates over gilt yields by 1%. This will increase the costs of any future borrowing to support the Council's capital plan. Alternative sources of borrowing are being investigated however is it possible that PWLB will remain the prime option for council borrowing.

16. Appendices:

- 16.1. Appendix 1 – EXEMPT debtor "write offs" over £5,000 in quarter 2 of 2019/20
- 16.2. Appendix 2 - Capital Plan summary – Quarter 2 2019/20

16.3. Appendix 3 – Capital Plan 2019/20 Project Status