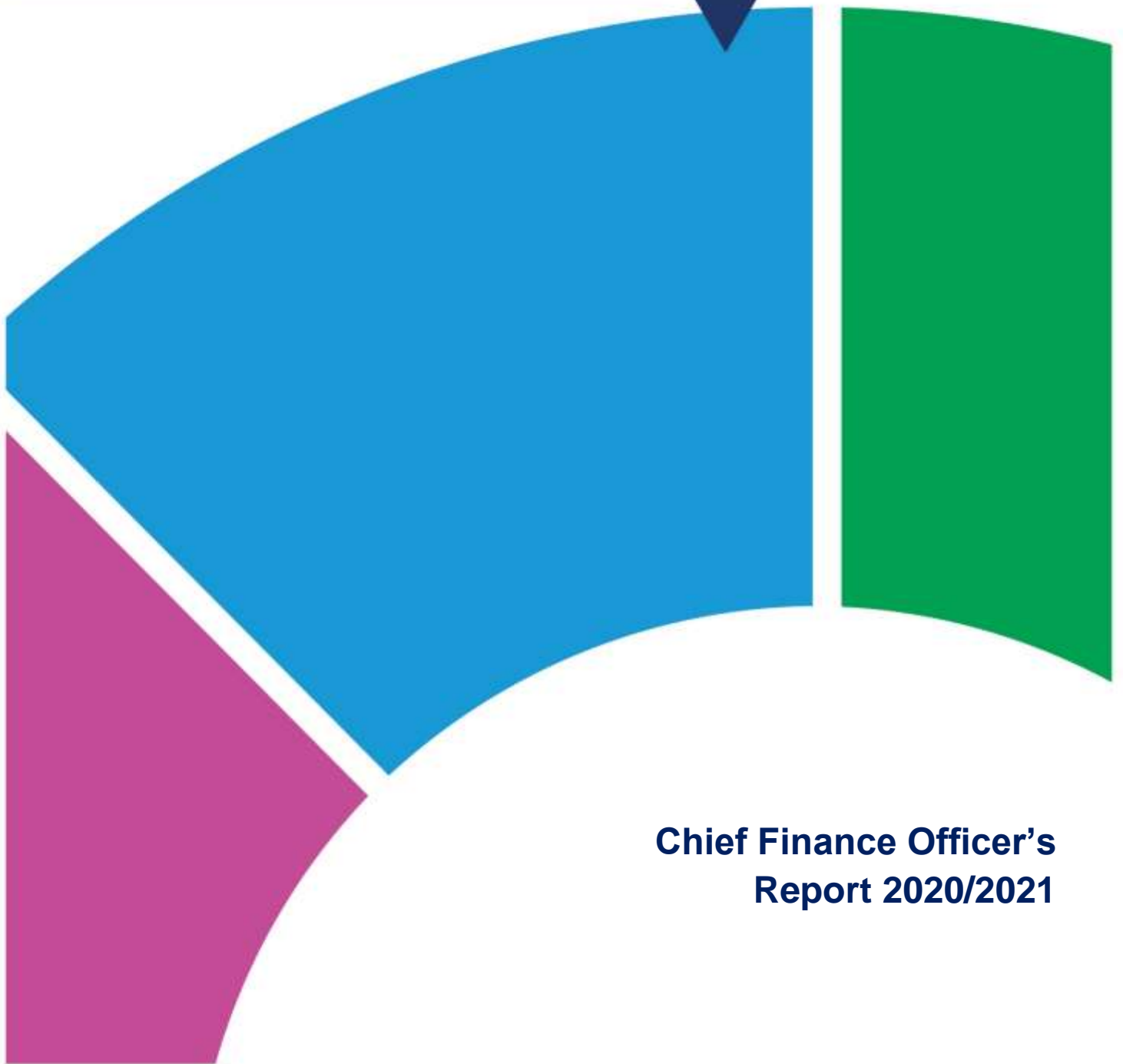


Budget 2020/21



**Chief Finance Officer's
Report 2020/2021**

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Introduction

1. This report by the Council's Chief Finance Officer provides further information to support the Partnership's Draft Budget Proposals for 2020/21.
2. This report aims to provide further information and an overview of a number of key factors, including a number of "technical" finance issues, that have influenced the 2020/21 draft budget and raises issues for future financial years.

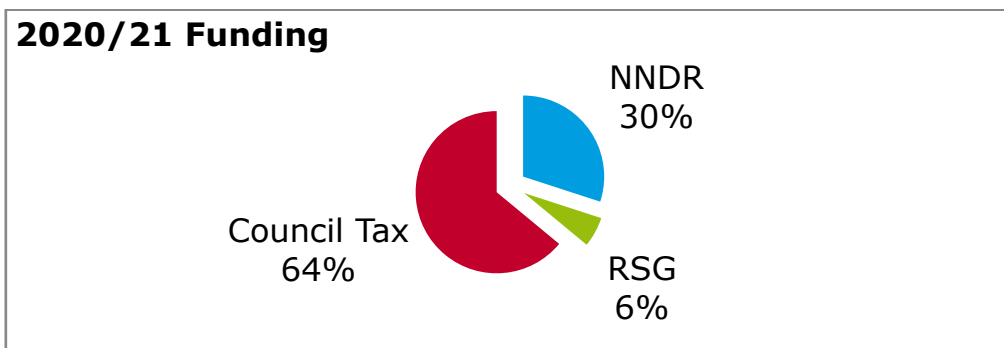
Budget Overview

3. These draft budget proposals are presented in the light of considerable national political uncertainty. 2019/20 was the final year of a four year funding settlement. The, one year only, Spending Round announced by the Chancellor in September was very different compared to previous settlements and the Budget in March 2019. The budget proposals are based on the announcements made in the Spending Round which included no reductions in local government funding, the continuation of 2019/20 grants into 2020/21, additional funding specifically for social care and the option of a 2% council tax precept to fund adult social care. It should be noted that the final Local Government Finance Settlement for 2020/21 will be the responsibility of the Government elected on 12 December 2019.
4. The modest increase in local government funding compared to the reductions in previous years is welcome. However put in context, the increase in grant funding in 2020/21 is likely to be less than the £4m reduction in the Council's revenue support grant that occurred in 2019/20. Overall, Torbay's Revenue Support Grant has reduced by £36m - from £42m in 2013/14 to £6m in 2019/20.
5. The Spending Round was for one year only therefore there is still considerable funding uncertainty from 2021/22 onwards. As a direct consequence of a one year announcement MHCLG has delayed both the introduction of a new funding formula and a revised NNDR system by a year to April 2021 as a three year Spending Review is expected for 2021/22 onwards. The Council has an estimated funding gap in 2021/22 and 2022/23 of over £9m.
6. Despite the increase in funding for 2020/21, there are rising costs and demand for services which continue to create significant financial challenges to the Council. Members need to consider the draft 2020/21 budget in the context of the future year budget reductions required.
7. The Council's financial planning for 2020/21 started in March 2019 and the Partnership's provisional budget proposals are published on 17 December 2019 enabling a period for consultation and scrutiny of the proposals. To achieve a balanced budget, the proposals for 2020/21 have required a range of reductions and income generation and a number of difficult choices for the Council.
8. The Partnership's draft budget proposals have sought to limit the impact of the reductions on the more vulnerable in society and, within Children's social care, the Council is recommended to invest significant additional funds for the safeguarding of children resulting in a real terms increase in budget for that service of over £9.8m to a total of £46.5m.

9. The Partnership's draft budget proposals also recognise financial pressures in a number of other areas. . These include registration of electors and the coroner's service. The budget also, in part, reinstates the 2019/20 reduction to the Torbay Coast and Countryside Trust and in addition allocates funding for Torre Abbey phase three and reinstates a "holding" budget for Oldway Mansion.
10. To support the difficult budget challenges facing the Council it is proposed by the Partnership that the Council increases its Council Tax requirement by an inflationary 1.99%.
11. The Partnership are also proposing to take the flexibility (if confirmed) to raise Council tax specifically for Adult Social Care by 2% in 2020/21.
12. The Partnership's detailed budget proposals are available as part of the draft budget.
13. Members of the Overview and Scrutiny Board (through the Priorities and Resources Review Panel) will examine the proposals in detail and stakeholders and residents will have the opportunity to make representations on the proposals through the consultation. The Partnership will review all of the responses received and the final budget proposals will be drawn up after consideration of the responses.
14. This report supports the Draft Revenue Budget 2020/21. Other budget related reports will be presented to Council in February 2020 which are relevant to the Council's overall financial position are:
 - a. 2020/21 Capital Strategy and Capital Receipts Strategy
 - b. 2020/21 Treasury Management Strategy, including Investment Policy and Minimum Revenue Provision Policy
 - c. 2020/21 Review of Reserves
 - d. Annual Strategic Agreement (for adult social care)
15. Also relevant are:
 - e. Medium Term Resource Plan (on website)
 - f. Corporate Asset Management Plan
 - g. 2019/20 Revenue and Capital Budget Monitoring Report – Quarter Two
16. Budget Digest pages, Fees and Charges and budget proposals sheets are available separately along with any required equalities impact assessments.

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

	2020/21	
	£'000	£'000
Partnership's Draft Budget Proposal:		
Net Revenue Expenditure	115.6	
Total Net Revenue Expenditure		115.6
Funded By:		
Business Rate Retention Scheme	34.4	
Revenue Support Grant	6.5	
New Homes Bonus Grant	0.8	
		41.7
Council Tax Requirement	70.8	
Council Tax – 2% Adult Social Care	1.4	
Collection Fund Surplus/Deficit	1.7	73.9
Total Income		115.6



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

Directorate/Service	Expenditure £000s	Income £000s	Net £000s
Adult Services	54.8	(14.9)	39.9
Children's Services	99.5	(52.5)	47.0
<i>Dedicated Schools Grant included in Children's Services. 2019/20 allocation to be announced</i>	42.0	(42.0)	0
Public Health	11.7	(1.8)	9.9
Sub Total – Joint Commissioning Team	166.0	(69.2)	96.8
<u>Corporate Services</u>			
Community Services	4.5	(2.8)	1.7
Corporate Services	7.3	(3.4)	3.9
Customer Services	56.1	(53.1)	3.0
<i>Housing benefit included in Customer Services</i>	50.1	(50.1)	0
Sub Total - Corporate Services	67.9	(59.3)	8.6
<u>Finance</u>	27.9	(32.5)	(4.6)
<u>Place</u>			
Business Services and Regeneration and Assets	30.7	(17.8)	12.9
Investment Properties	11.1	(16.2)	(5.1)
Planning and Transport	9.2	(2.2)	7.0
Sub Total -Place	51.0	(36.2)	14.8
TOTAL	312.8	(197.2)	115.6
Sources of Funding			
Council Tax			70.8
Council Tax – 2% Adult Social Care 2020/21			1.4
Collection Fund Surplus			1.7
Revenue Support Grant			6.5
Business Rates (NNDR)			34.4
New Homes Bonus Grant			0.8
TOTAL			115.6

Capital Plan 2020/21

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

Spending Round 2019 and Local Government Finance Settlement 2020/21

21. In September 2019 the Chancellor announced a, one year only, Spending Round for 2020/21. The Spending Round announced high level department allocations and a number of service specific national allocations. Torbay's actual funding allocations for 2020/21 will be confirmed in the provisional Local Government Finance Settlement which is expected after the General Election and therefore may be issued later than usual.
22. The key issues from the Spending Round are as follows:
- The Council's Revenue Support Grant (RSG) to rise by an inflationary amount,
 - Council Tax Referendum limit for Councils set at 2% and over for 2020/21,
 - Option of a 2% council tax rise for adult social care to be consulted on (by MHCLG),
 - Grants received in 2019/20 will continue for another year in 2020/21, including social care, Improved Better Care Fund, Winter Pressures, Troubled Families and Flexible Housing. It is expected that New Homes Bonus will continue with one additional year in addition to the "legacy" payments,
 - A number of new funding streams were announced:
 - £1.0 billion nationally for "Social Care", un-ring fenced grant,
 - £0.7 billion nationally for Special Need pressures – ring fenced grant within the Dedicated Schools Grant,
 - No funding announcements for 2021/22 onwards. The next three year Spending Review due in 2020. That uncertainty combined with a new 75% NNDR scheme and a new funding formula continues to make longer term financial planning very challenging.

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

23. Immediately after the one year Spending Round, MHCLG announced a one year delay in both the introduction of the new funding formula and a revised NNDR retention system. However in reality, progress to a new funding formula has not advanced since the two consultation documents issued in December 2018 with significant parts of the formula not yet consulted on – such as the formula allocation for children's' social care. There is, therefore, still significant uncertainty around the Council's funding for 2021/22 onwards.

24. Key elements of the consultation were:
- NNDR Retention Scheme: From 2020/21 (now 2021/22) the MHCLG intend to introduce a 75% NNDR retention scheme for all Councils. The consultation sought views on the design of the scheme and how and when any NNDR growth is redistributed between Councils to keep the link between funding and need while retaining an incentive for growth. In addition the consultation suggested that NNDR baselines are changed on an annual basis to ensure councils are not disadvantaged by the impact of appeals.
 - New funding formula to allocate new funding baselines and income baselines to all councils from 2020/21 (now 2021/22). The aim was to have as simplified a formula as possible that focusses on a limited number of key cost drivers. The consultation proposed an eight block formula then adjusted for general factors to reflect labour costs, rates costs and sparsity.
 - There are seven specific formulas for major services – adults social care, children’s social care, highways, public health, legacy capital costs, fire and flood defence. All other services will form part of a “Foundation” block where it is proposed that this formula will be based on total population.
25. This proposal, although meeting the criteria of being transparent and simple, does not take into account other place based factors that significantly influence costs and demand, such as deprivation and coastal town issues. Also some services included in the Foundation block such as concessionary fares, home to school transport and housing/homelessness are clearly not linked to total population.
26. The Council responded to this consultation and liaised with the LGA and other “influencers” to attempt to ensure that the final formula is reflective of the issues Torbay faces. As part of this process the Council’s Chief Executive and Head of Finance had a meeting with the then Local Government Minister, Rishi Sunak and Kevin Foster MP. In addition the Head of Finance participated in a children’s services “round table” organised by the LGA with the DfE.

Dedicated Schools Grant

27. As part of the Spending Round additional funding was announced for the Dedicated Schools Grant – for both schools and higher needs. Torbay’s 2020/21 allocation of these additional funds are yet to be announced but an overall increase of 5% in the schools block is expected. Within the average overall increase, individual schools will receive more or less depending on the impact of the changes in the formula and pupil numbers to their allocations.
28. The Council will, as usual, direct the entire grant received in respect of Dedicated Schools Funding through to those areas defined in the School Finance Regulations. As a guide for 2019/2020 the allocation of Dedicated Schools Grant (DSG) before academy school recoupment was £105m. For 2020/21 it is estimated that approximately £42m will be retained in the Council’s budget for expenditure related to its (maintained) schools and other residual functions.

29. The DSG and the schools funding formula is being changed with full introduction of a new national simplified minimum per pupil funding formula from 2021/22. Movement of funding between these blocks is now limited and will cease altogether for schools block from 2021/22 with the introduction of the national school funding formula.
30. The key financial pressure within the DSG is in the Higher Needs block. The pressures on the Higher Needs block arise from the level of demand and referrals from schools for support to pupils. In recognition of this pressure Schools Forum for 2019/20 agreed to move 1.4% of the school block to the higher needs block which was subsequently approved by DfE. Despite this, the overspend on the block in 2019/20 is estimated to be £1.0m, resulting in a cumulative forecast deficit of £3.6m, which needs to be “made good” in future years.
31. As recognition of the national issues in the Higher Needs block, the Spending Round has allocated £0.7 billion nationally to support Higher Needs pressures. Although welcome the estimated additional funding for Torbay will be less than the current year forecast overspend.
32. The DfE have issued a consultation on the funding of deficits on the Dedicated Schools grant and have clarified that a deficit on this grant is not a liability to the Council and will need to be “made good” from future year DSG funding allocations.
33. Until the higher needs block achieves financial balance in the longer term, the DSG reserve will be used to fund the cumulative deficit as a “negative reserve”. However holding a negative reserve is not neither a recommended nor a sustainable solution.

Adult Social Care

34. The Council's budget proposals for 2020/21 includes the proposed contract sum agreed with the ICO and CCG to continue the highly regarded system of integrated health and adult social care within Torbay. A three year arrangement has been agreed, supported by a focussed cost improvement plan for adult social care. The contract value is £45 million plus £2m held as a specific contract contingency and, for 2020/21 only, a one off payment of £1m.
35. The contract sum includes Council adult social care funding including Better Care Fund, Improved Better Care fund, Winter Pressures grant and funding from the Adult Social Care council tax precept.
36. Any additional funds raised by the 2020/21 Council tax precept of 2% (approx. £1.4m) will be allocated for adult social care expenditure.

Children's Services

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

38. Linked to the 2019/20 forecast expenditure, an additional £7m will be added to the children's social care budget in 2020/21 to re base the budget to current demand levels allowing for a contingency for further demand.
39. £2m will be allocated to the service to enable investment in areas to enable service improvements. Areas for investment will include SEND, senior management capacity, commissioning, procurement, recruitment and retention, and investment in fostering in particular for carers who look after children with complex needs. No assumptions of reductions on the current levels of demand and cost have been included in the draft budget proposals for 2020/21.
40. In addition to the above a further £0.8m has been allocated to the service as one off funding for 2020/21 only to cover initial expenditure on both fostering and the social work academy prior to compensating reductions being realised.

Community Engagement

41. The draft budget does not contain any proposals in relation to the establishment of additional Town Councils.
42. In order to support the Partnership's ambitions for engagement with the community in particular for the community to work with the Council to both provide and support service provision, an allocation of £0.250m has been made for this purpose, of which £0.2m is one off funding and will be earmarked in a reserve for this purpose.

TOR2 Re-provision

43. The draft budget proposals include an estimated £1.3m from the provision of services after the expiry of the contract with TOR2 in July 2020.
44. The savings on re provision are expected to be a combination of the financial gains from the operation of a new 100% council company compared to the current contract with Kier and from the re specification of services at a lower level both within the current TOR2 contract and also other "place" based contracts.

Investment Fund

45. Council in July 2019 approved an increase in the Investment Fund to £300m. The estimated surplus, after borrowing costs and contingency for future years, on these properties is now forecast to be £4.6m in 2020/21 (a £1m increase on 2019/20). In light of the recent HM Treasury increase in (future) PWLB borrowing rates this target will need to be kept under review.

Estimation of Council Tax Surplus/Deficit

46. The Council makes an estimate of the surplus or deficit on the Collection Fund at year end from under or over achieving the estimated council tax collection rate which will be set in January 2020. For the draft budget proposals a net surplus of £2.0m (Torbay's 84% share) on council tax collection has been estimated.

47. As the Council sets a collection rate within its tax base equivalent to the amount collected in the 12 months of the next financial year any surplus primarily represents the collection of sums due in respect of previous years. This indicates a level of success in collecting old year debts and raises the overall, longer term, collection rate well above the “in year” rate, which is 96%.
48. As a local precepting authority, as defined in the Local Government Finance Act 2012, Brixham Town Council (or any new Town Council) will not be entitled to a share of any surplus or deficit on the collection fund.

National Non-Domestic Rates

49. The Council's NNDR income in 2020/21 comprises of three parts: a 49% share of NNDR income, a “s31” grant to reflect the loss of NNDR income to the council from central government changes to the NNDR (e.g. SBR) and a Top Up grant that reflects the difference in the Council's assessed “need” for funding compared to its actual ability to raise NNDR income (as set in 2013).
50. Since the introduction of the Business Rates Retention Scheme in April 2013, the Council is also required to declare a surplus or deficit for NNDR in a similar way as set out above for council tax. The forecasting of NNDR has involved a wide range of complex variables and influences and is an area which has caused further complications for medium term financial planning. Overall the Council is currently predicting an estimated deficit position of £0.3m (49% share) on its Collection Fund in respect of NNDR as at 31st March 2020.

Council Tax and Referendum Limits

51. To control the level by which local authorities can increase Council Tax, the Government has set limits at which point a referendum would be required. Following the Spending Round this is expected to be set at 2% or over for 2020/21. The Partnership's draft budget proposal is for a 1.99% increase in this element.
52. In addition, again following the Spending Round, MHCLG will consult on an option to increase council tax by a further 2% specifically for adult social care. The Partnership's draft budget proposal includes this 2.0% increase.
53. Everyone will be aware that the Council Tax bill sent out to residents is made up of three main component parts, namely Torbay Council, Devon and Cornwall Police Authority and Devon and Somerset Fire and Rescue Authority. Once these have been declared they will be including in the Council Tax setting report which will be presented to Full Council at the end of February 2020.
54. The Secretary of State will consider the three component parts, not the overall bill, and, if one of the three organisations were capped, the Council would have to re-bill. Everyone will also be aware that, in addition, there will be a separate Council Tax charge for residents in the Brixham Town Council area.
55. In 2019/20, Torbay had the lowest Band D Council Tax in Devon at £1,801.84 including the Fire and Police precepts, but excluding parish and town council precepts. A summary of some other Devon Councils' Band D rates are as follows:

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

Table last updated 8 April 2019

57. The differential between Torbay and the other Councils increases when Town and parish precepts are added. As a guide the 2019/20 precept for Brixham Town Council was £51.29.

Pay and Pensions

58. The 2020/21 pay award for staff has not yet been agreed. The budget proposals include an allocation for a pay award of 2% in services, whilst a contingency is also to cover any impact changes in the living wage and/or increases on lower grades over the “headline” award.
59. In 2019 there was the triennial valuation of the Devon County Pension Fund to ensure that employer contribution rates are set to meet the long term employee pension benefits requirements. This has resulted in an increase in Torbay’s “primary” rate to 16.7% (from 14.8%), however this increase has been more than offset by a significant reduction in the Council’s “secondary” rate (i.e. deficit) lump sum payment.

Reserve Levels

60. In part from the significant overspend in 2019/20 where reserves of £4m will be required to balance the budget, the Council’s general fund reserve of £4.6m is low compared to both the Council’s overall expenditure and also in comparison to other Councils. The CSR reserve will also be below the minimum target level of £2m.
61. The 2020/21 budget proposals include a modest increase of £0.5m to the Council’s general fund reserve. The Council also has the option, in order to give reserve levels a “boost”, to swap revenue and reserve funded capital expenditure for prudential borrowing to up to £3m which will need to be funded from future revenue budgets. At this stage this option is not being proposed but will be considered if the Council’s financial position deteriorates further in 2020/21.

External Peer Financial Reviews

62. In November 2018 another LGA financial review was undertaken (and was reported to Council in January 2019). The report was positive in the achievements that Torbay has made to date to deliver a balanced budget. Some recommendations from that report are repeated as the remain relevant:
- Torbay should continue to plan on the basis that it is a self-standing Unitary Authority.

- b. Officers need to begin work now, Council wide, on further transformation and savings proposals for the future, to present to the incoming administration in May 2019 and give them a head start and room to manoeuvre in planning the budget for 2020 and beyond.
- c. Torbay establishes a formal saving delivery plan for Children's Services which should include an analysis of the current case load to try and determine any structural reasons as to why Torbay has such a high demand for Children's services. This delivery plan should be monitored corporately at both officer and member level.
- d. The negotiation on the future of the ICO risk share must leave the authority in a position where it is financially sustainable as a whole and must not be conducted in isolation from the corporate position.
- e. On the TOR2 contract, as well as considering the early termination, there should be immediate focus on developing detailed specifications for services after the end of the contract, which in planning terms is now getting close – especially if some of the services need to be procured or if expensive vehicles and plant are to be purchased. Torbay should detail the services it wants and can afford and should seek to deliver significant ongoing savings from this process.
- f. The Council should continue to investigate the option of establishing Town Councils that could raise precepts and provide communities with a different set of options for future service provision. This work should be progressed to a point where members are able to make an informed decision and be capable of being implemented in April 2020 should the new administration chose to do so.
- g. Torbay should continue its discussion with Government about a possible Town Deal. This and similar approaches should be pursued through the Torbay Together initiative.
- h. Torbay should continue to explore all possible options to work regionally and sub regionally, to raise its profile and exploit any possible funding streams e.g. through the LEP.

CIPFA Financial Resilience Index

- 63. To provide more information and transparency on Councils' financial position, in particular after the issues in Northamptonshire County Council, CIPFA issued a "Financial Resilience Index."
- 64. The Index is being revised and is yet to be issued formally but based on draft information the assessment of Torbay's position is that the "Indicators of Financial Stress" will rank Torbay as a "higher risk" Council but not at the highest level. Factors that show a higher risk assessment are in relation to children's' social care where the council's share of its budget on this service is high and it has an inadequate OFSTED judgement. Other factors showing a higher level of risk are the overall level of reserves compared to budget. Conversely lower risk is reflected by the level of spend on adult social care and no reduction in the level of general (unallocated) reserves.

Transformation Programme

65. Key to the longer term financial viability of the Council is the Council's transformation programme supported by a dedicated transformation team. The team supports the development of projects to help deliver financial savings. A number of these projects have already resulted in some savings which have been incorporated in previous year budgets and some for 2020/21. Projects include investment fund, income optimisation, council re design and improving collection fund income. The 2020/21 budget includes an allocation of savings arising from the council re design project.
66. The financial challenge facing the council is still significant with uncertainty of funding in 2021/22 onwards, therefore the transformation process is key to bringing forward viable projects "at pace".

Longer Term Future Council Funding

67. The Medium Term Resource Plan was updated by the end of March 2019 to include the impact of the approved 2019/20 budget and the latest estimates of future year costs and funding which predicted a funding "gap" of £18.5m. The Spending Round announced in September 2019 improved the financial outlook in 2020/21 however it moved some funding uncertainty back to 2021/22 with the delay in the new funding formula and the revised NNDR system. However the continuing rising demand and cost of children's social care has negated any potential improvement in the financial position for 2020/21.
68. As an initial guide, prior to more detailed work being undertaken post budget setting, it is estimated that between 2021/22 and 2022/23 the Council will require in the region of over £9m of reductions to achieve a balanced budget.
69. 2021/22 will now be the first settlement after the Central Government Spending Review in 2020. That uncertainty combined with a new 75% NNDR scheme and a new funding formula makes longer term financial planning very challenging, which may vary the forecast gap by up to an estimated +/- £3m each year.
70. The aim of the above changes is that Councils will not have any central government "core" funding, with the Councils funded from council tax and NNDR. Councils therefore have a clear incentive that, to secure funding for services in the future, there has to be increases in both its council tax base (housing) and NNDR (business). It must be noted that MHCLG are still intending to control Council spend by the retention in the system of both funding baselines and income baselines. This is not only to control total funding therefore enabling overall funding reductions by changing tariff and top up grants, but also to enable total funding to be redistributed based upon need.
71. This reliance on local taxation as the prime source of funding has risks as the link between a council's need for funding to provide services (linked to population and demand) and its funding linked, in part, to economic growth may not move in a similar direction. In addition NNDR income is volatile and is, to a large extent, outside a Council's direct control. Spreading NNDR risk and reward over a wider area is therefore a benefit.