

Meeting: Cabinet **Date:** 4 February 2020

Council **Date:** 6 February 2020

Wards Affected: All

Report Title: Revenue Budget 2020/21

Is the decision a key decision? Yes

When does the decision need to be implemented? Immediately

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1. Proposal and Introduction

- 1.1 The Council has a statutory responsibility to set a budget each year. By setting and approving the net revenue budget for 2020/21, the budget allocations proposed and the expenditure undertaken will be used to achieve a range of objectives across a number of plans within the Council. This will meet the ambitions expressed within the Corporate Plan and other related strategies.
- 1.2 In accordance with the Council's Constitution, Members are asked to either confirm their agreement to the recommended budget or put forward objections, and then any amendments for consideration at future meetings.
- 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

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

3. Partnership's Budget Proposal

- 3.1 That the proposals identified for efficiencies, service change and income generation in 2020/21 be approved.
- 3.2 That the net revenue expenditure of £115.868m resulting in a Council Tax requirement of £72.328m for 2020/21 (a 3.99% increase in Council Tax, of which 2% is for Adult Social Care) be approved.
- 3.3 That the Dedicated Schools Grant be used in accordance with the Schools Financial Regulations and that the Chief Finance Officer be authorised to make amendments as required when the final figures are confirmed and this delegation is included in the next revision of the Council's constitution.
- 3.4 That the proposed Fees and Charges for 2020/21 be approved.
- 3.5 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.
- 3.6 That it be noted that the Brixham Town Council precept of £0.336m for 2020/21 will be included as part of the Torbay Council budget for Council Tax setting purposes.

4. Background Information

- 4.1 The Partnership have published their Budget Proposals and these have been circulated to all Members of the Council. All Members have also been provided with copies of the supporting information which has been published alongside the Budget Proposals:
 - Chief Financial Officer's Report
 - Revenue Budget Digest 2020/21
 - Fees and Charges 2020/21
 - Proposals for service change, income generation and savings including Equality Impact Assessments
 - Review of Reserves 2020/21
 - Capital Strategy 2020/21
 - Capital Budget 2020/21
 - Quarter Three Budget Monitoring 2019/20
- 4.2 The budget has also been updated for any confirmed grant allocations received since the draft budget was issued. These include Discretionary Housing Fund (£625k), Flexible Housing Grant (£612k) and Rough Sleeping Grant (£620k).
- 4.3 In relation to the Dedicated Schools Grant, the Grant will be used in accordance with the Schools Financial Regulations and that the Chief Finance Officer be authorised to make amendments as required when the final figures are confirmed and this delegation is included in the next revision of the Council's constitution.
- 4.4 Within the Higher Needs Block of this Grant it is projected that there will be a deficit on this Block in 2020/21 of £2m. This in year deficit will be accounted for as an increase in the cumulative deficit on this ring fenced grant held by the Council as a

negative reserve pending future funding being identified. Further information on the Higher Needs Block is attached as an appendix to this report.

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. A number of assumptions have been made in the development of the budget for 2020/21 in order to mitigate against the risks. A number of specific risks and their mitigation are shown below:

Risk	Risk Rating	Mitigation
Inability to deliver a balanced budget over the next three financial years	High	Annual Planning cycle for budgeting supported by the transformation programme
Identified budget reductions for 2020/21 are not achieved	Medium	<p>Monthly monitoring of current year financial position by Senior Leadership Team including a "savings tracker".</p> <p>Contingency budget in 2020/21 revenue budget.</p> <p>Directors, Assistant 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 2020/21 Children's Services budget	Medium	<p>The Interim Director of Children's Services (DCS) has a service improvement plan and a sufficiency strategy with a number of work streams that has been recently established and being implemented, supported by a range of monitoring and performance arrangements.</p> <p>20/21 Childrens' Services Budget re based to current spend levels - £7.0m increase plus a further £2.8m for investment in the service.</p>
Overspend against the proposed 2020/21 Adult Social Care budget	Low	Agreement in place in which Council pays a fixed payment with no exposure to any over or under spends.
Volatility of NNDR Income	Medium	Provision for appeals and non-collection included in 2020/21 NNDR income estimate.
Insufficient income generated	Low	<p>Annual cycle for budgeting supported by the transformation programme.</p> <p>Prudent view taken of new income streams in 2020/21 and a contingency held.</p>
Insufficient investment fund income	Medium	<p>Prudent view taken of potential new income streams in 2020/21.</p> <p>Cabinet continues to review investment opportunities.</p>

Risk	Risk Rating	Mitigation
Insufficient reserve levels as a result of a significant budget variance or unforeseen event.	Medium	Review of Reserves report presented to the Council and £4.6m maintained in the General Fund balance and £3m target balance held in CSR Reserve. 20/21 budget includes a £0.5m increase to the CSR Reserve.
Exposure to changes in interest rates	Low	Treasury Management Strategy to be approved by the Council. All borrowing currently on fixed rate deals.
Inflationary pressures	Low	Budget build has included estimates of inflation where applicable. Pay award and impact of living wage not finalised yet however contingency held.
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.
Insufficient capacity to deliver the Transformation Programme	Low	Provision in 2020/21 budget for £0.5m for transformation.

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, the Cabinet and the Senior Leadership Team in forming my opinion. My opinion is that the 2020/21 budget is based on robust budget estimates.

This opinion is supported by significant increased funding for childrens social care, the signed agreement for adult social care and the maintenance of Council reserves at a prudent level and the delivery of the transformation programme including the re provision of TOR2 services by SWISCO".

5.4 In relation to reserve levels, the statement in the 2020/21 review of reserves report is:

6.0 Head of Finance Statement.

6.1 The Council is continuing to face financial challenges. I am satisfied that the Council's General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council's Financial Plans for 2020/21 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment.

6.2 This view has to be caveated that if the Council has unforeseen financial pressures, such as a significant in year budget overspend, then the Council's ability to fund these variations is limited. However this view can be mitigated if the following actions are undertaken:

- a) The 2020/21 budget plans for an increase to the CSR reserve to achieve a minimum ongoing balance of £3m over the next two years.
- b) That the Council continues to focus on childrens' social care as the biggest financial risk to the Council to deliver the identified improvements supported by a robust financial recovery plan and the sufficiency strategy
- c) That a balanced revenue budget can be set for 2020/21 including a significant increase in the childrens' social care budget to reflect actual levels of cost and demand.
- d) That the budgeted Investment Property surplus for 2020/21 is achieved.
- e) That the Council continues to delivers its transformation programme at pace
- f) That the Council recognises the option of using borrowing to fund capital plan to enable an increase to reserve levels by £3m if needed

6.3 At this stage with the significant uncertainty in relation to central government funding for 2021/22 I am currently unable to give any assurance in relation to 2021/22. I recommend, however, that the Council continues to be prudent in its use of reserves and plans for future risks and their mitigation. These to include:

- a) Maintaining a balance on CSR reserve of £3m
- b) Protection to current level of General Fund Reserve
- c) No reserves used to balance 2020/21 or future year budgets
- d) Specific material risks still mitigated for – such as insurance, NNDR volatility and investment fund
- e) Regular updates and awareness of the risks identified in the Medium Term Resource Plan
- f) That the Council continues to delivers its transformation programme at pace in medium term
- g) Continued focus on reducing spend in childrens' social care

7.0 Appendices

7.1 Appendix One - Higher Needs Block Briefing paper



Briefing Paper – Higher Needs Block

Context

The following paper aims to quantify the current pressure on the budgets for children and young people with Special Educational Needs and Disability (SEND) and the actions that are being taken at a local level to endeavour to address some of the rising pressures within this area.

The provision of Special Educational Needs support for children and young people within Torbay is funded through an allocated budget (Higher Needs Block) within the Dedicated Schools Grant (DSG). The gap between high needs funding and high needs expenditure has historically been dealt with by the movement of funds between the blocks within the DSG. This historic position masked the severity of the funding issues. The ability to move blocks at a local level was removed in 2018 and any movement of funds between blocks now requires a full public consultation and secretary of state approval. In 2018 the Schools Forum was given approval from the secretary of state to move funds, however this raised significant concerns given the impact on school budgets. However despite the transfer of funds and using all of the final reserves of School Forum, the net effect of increasing demand for SEND services and support has left the Local Area with a significant and increasing deficit. It is anticipated that the deficit by the end of March 2020 will be £3.625million. (Budget overview paper attached)

Pressures within the budget and ability to control spend

The rising costs of support for children and young people with SEND are driven both by the increasing numbers of children and young people requiring support and the increasing unit costs of that support. Torbay currently has 5% of Children and Young People with an Education Health and Care Plan. This is one of the highest rates in the country. Work is consistently taking place to review the threshold application for a plan, however external audit and testing through Tribunals has assured us that the application of threshold is consistent.

Torbay had a high percentage of children with a plan prior to the introduction of the new SEND code of practice in 2014. The introduction of the code was ambitious and far reaching and placed a significant expectation on the local area to provide additional services and educational opportunities that had not been available previously, most notably extending the entitlement to 0 – 25 years. The increased responsibility of providing for a new cohort of young people from the ages of 16 to 25 has significantly contributed to the growth in high needs spending.

Another factor that has significantly contributed to the increased demand for services is the demand and parental preference for specialist services. Mainstream schools are working hard to accommodate pupils, however the range of national policy decisions, coupled with an inspection framework built with an emphasis on attainment, has not created an environment in which schools are sufficiently incentivised or rewarded for being inclusive. Despite collective efforts the percentage of children and young people

taught within specialist provision continues to grow. The Local Area is increasingly concerned that specialist local provision are working at full capacity, resulting on a reliance upon independent provisions that are high cost. It is anticipated that the new inspection framework introduced in September 2019, may lead to greater recognition and reward for an inclusive school culture, however there will be a limited number of children and young people currently taught in specialist provision that can return to mainstream education.

In addition to children with SEND, the Higher Needs Block also has to make provision for children and young people that are excluded from mainstream school. Permanent exclusions within Torbay remain stubbornly high and the correlation between disadvantage and exclusion is stark across both phases of education.

The impact of funding pressures across education, early help, statutory children's services and partner agencies is also leading to an additional pressure on schools and the provision available for young people. Pressure on school budgets to provide for changes in legislation, meet additional complex needs and continue services that have previously been commissioned by partner agencies place school budgets under further pressure. Mainstream schools are now less able to provide and support children and young people with SEND without additional funding which is taken from the Higher Needs Block. The cost of providing top up fees for individual pupils and bespoke packages has risen from £609k in 14/15 to £1.930m in 19/20.

The Schools Forum (the body responsible for the delivery of the DSG) have diligently taken action to try and reduce and mitigate the funding pressures. However despite these collective efforts the ability to manage within budget going forward has still not been achieved, until this position has been achieved the ability to address a cumulative deficit remains unknown.

Local Authorities with their School Forum have limited abilities to bring spend into line with budgets at a prompt pace. The key factors for consideration are:-

1. Around 85% of expenditure is tied into individual pupils and placements which cannot be released in the short term.
2. The legislation and the need to accommodate parental preference is being tested through Tribunals, these judgements predominately rule in favour of issuing a plan and subsequently expect a high level of provision to be given.
3. The limits on movements between blocks means that there is limited financial headroom available to invest in early intervention and prevention activity that can address the demand issues.
4. The constraints on capital allocations, mean that new provision and growth of provision is limited, leading to a reliance on independent options.

Local Authorities have the responsibility for maintaining high needs expenditure within budget, however there are no hard levers with which this can be actioned. The current system relies upon positive relationships, an ability to galvanise partners through a moral imperative and collective purpose. Although important mechanisms of change, they do not create a system of shared accountability and incentives.

Actions being taken at a Local Level

The Local Area has been working on a Higher Needs recovery plan for over 18 months. The plan has started to create a stronger sense of ownership across the education system, with parties beginning to recognise that individual decision making and requests for funding are contributing to the wider budget constraints. Schools Forum and the Higher Needs Recovery Group have a deeper understanding of the issues and have started to take action on key areas within the local area control. These include but are not limited to:-

- Supporting inclusion whilst holding schools to account
- Altering commissioning arrangements to provide more local area resource bases attached to schools and academies.
- Reviewing the funding allocations to each child and where possible reducing bespoke teaching arrangements.
- Creating new post 16 pathways
- Working with partners on shared packages and joint funding

Despite these actions and the continued emphasis on shared accountability the Local Areas ability to address the pressures remains limited.

Moving forward

To create a more sustainable model of providing high quality provision for children and young people with SEND, there needs to be greater emphasis and national direction on the alignment of policy and funding to meet needs. The School Forum and Local Authority need greater levers to corral partners to use the higher needs funding to best support all learners with SEND.

This could include:

- Clearer national expectations and guidance
- Greater flexibility and content of EHCP's to ensure schools are able to better determine how they deliver support.
- Providing ring fenced funding for support evidence based approaches to prevention that can be sustained and are not time limited.
- Correct the funding mechanisms that means it is cheaper to pass the cost of an EHCP or a permanent exclusion to the Higher Needs Budget rather than to make good quality school provision at an appropriate cost.
- Providing additional capital investment for specialist provisions
- Further mandating the sharing of costs between social care, education and health
- Consider the impact of league tables and inspections frameworks on incentivising inclusion.

Most importantly there needs to be recognition of the demands within the system and it is imperative that an additional and ongoing injection of funding needs to be provided to both deal with the deficit position and also to balance the budgets moving forward.

High Needs Recovery Group 9/12/19									
	16/17	17/18	18/19	19/20	Cumulative				
	Actual	Actual	Actual	Forecast	Position				
	£	£	£	£	£				
High Needs Overspend	436,953	1,552,844	2,653,299	2,616,249	7,259,345				
Transfer from Schools Block			(369,000)	(1,396,000)	(1,765,000)				
Other DSG Overspend / (Underspend)	397,644	(570,247)	(119,232)	(199,344)	(491,179)				
Total DSG Overspend	834,597	982,597	2,165,067	1,020,905	5,003,166				
Special School Numbers	16/17	16/17	17/18	17/18	18/19	18/19	19/20	19/20	
	April	Sept	April	Sept	April	Sept	April	Sept	
	Places	Places	Places	Places	Places	Places	Places	Places	
Combe Pafford	234	234	234	252	252	252	252	252	252
Mayfield & Chestnut	207	218	218	228	230	230	230	240	240
Brunel & Burton	106	96	96	96	106	106	106	106	106
Totals	547	548	548	576	588	588	588	598	598
Special School Funding	16/17	17/18	18/19	19/20	Increase				
	Funding	Funding	Funding	Funding	since 16/17				
	£	£	£	£	£				
Combe Pafford	3,132,023	3,305,506	3,478,021	3,482,193	350,170				
Mayfield & Chestnut	4,111,366	4,334,771	4,583,031	4,761,039	649,673				
Brunel & Burton	2,103,482	2,021,375	2,449,373	2,477,938	374,456				
	9,346,871	9,661,652	10,510,425	10,721,170	1,374,299				
EHCP Top-ups	16/17	17/18	18/19	19/20	Increase				
					since 16/17				
FTE's	334.00	353.17	358.83	400.83	66.83				
Funding	926,000	1,234,000	1,508,000	1,930,000	1,004,000				
Funding per FTE	2,772	3,494	4,203	4,815	2,043				