

Meeting: Cabinet
Council

Date: 22 February 2022

Date: 3 March 2022

Wards affected: All

Report Title: Revenue Budget 2022/2023

When does the decision need to be implemented?

This decision is required Immediately

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1. Purpose of Report

- 1.1 The Council has a statutory responsibility to set a budget each year. By setting and approving the net revenue budget for 2022/23; the budget allocations proposed, and the expenditure undertaken will be used to achieve a range of objectives across several plans within the Council. This will meet the ambitions expressed within the Community and Corporate Plan and other related strategies
- 1.2 In accordance with the Council's Constitution, members will consider the Cabinet's recommended budget proposals at the Council meeting on 3 March 2022 and are asked to either adopt the Cabinet's proposals or put forward notice of motion to amend the budget (in accordance with Standing Order A13.4).
- 1.3 Within the budget setting process, the Chief Finance Officer must statutorily provide advice as to the robustness of the budget and this report sets out this opinion.

2. Reason for Proposal and its benefits

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

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

- 3.1 That for 2022/23 net revenue expenditure of **£120.8m** resulting in a Council Tax requirement of **£78.1m** for 2022/23 (a 2.99% increase in Council Tax, of which 1% is for Adult Social Care) be approved.
- 3.2 That the proposed Fees and Charges for 2022/23 be approved.
- 3.3 That, in accordance with the requirement of the Local Government Act 2003, the advice given by the Chief Finance Officer with respect to the robustness of the budget estimates and the adequacy of the Council's reserves (as set out in the report) be noted.
- 3.4 That it be noted that the Brixham Town Council precept for 2022/23 of £379,600 will be included as part of the Torbay Council budget for Council Tax setting purposes.
- 3.5 That to ensure the continuation of the integrated health and adult social care arrangements with the CCG and the ICO for a further two financial years, after the end of the current agreement in March 2023, that Council allocate funding of £55.4m for 2023/24 and £56.5m for 2024/25.

Background Information

- 4.1 The Partnership have published their Budget Proposals, and these are available to all Members of the Council. All Members have available copies of the supporting information which has been published alongside the Budget Proposals:
- Chief Financial Officer's Report
 - Revenue Budget Digest 2022/23
 - Fees and Charges 2022/23
 - Review of Reserves 2022/23
 - Capital Strategy 2022/23
 - Capital Budget 2022/23
 - Treasury Management Strategy 2022/23

5. Adult Social Care

- 5.1 The Council has been in forms of integrated health and adult social care arrangements since 2005 with the CCG (Clinical Commissioning Group) and the ICO (Torbay and South Devon NHD Foundation Trust). The current financial arrangement expires in March 2023. To provide financial and service certainty to all parties, negotiations have been ongoing to extend the current arrangement for a further two years for 2023/24 and 2024/25.

- 5.2 All three parties are committed to the continuation of the successful integrated arrangement continues, and a two-year extension has been agreed subject to approval by the relevant formal approvals of each party. Therefore, Council is recommended that to ensure the continuation of the integrated health and adult social care arrangements with the CCG and the ICO for a further two financial years to 2025, that the Council allocate funding of £55.4m for 2023/24 and £56.5m for 2024/25.
- 5.3 To support integrated health and adult social care improvements the CCG and the Council will agree a s256 Health Act 2006 “joint working agreement” with the CCG providing £10m of funding to support in 2021/22. This funding will be recognised in 2021/22 and then carried forward to support related expenditure over the next three years.
- 5.4 Officers fully support the proposals and consider the funding allocations for 2023/24 and 2024/25 a “fair and robust” position for the Council and enables financial certainty for the Council for these years for this vital service.
- 5.5 It should be noted that any new funding and cost implications of the Adult Social Care “white paper” and any funding from the Health and Social care levy allocated by the Market Sustainability and Fair Cost of Care grant is outside the current proposal due to the ongoing uncertainty of the new requirements.
- 6. Dedicated Schools Block Deficit.**
- 6.1 As previously outlined there is an ongoing overspend on the higher needs block in the dedicated schools grant where funding in the ring-fenced grant does not cover the cost and demand for the service. Within the Higher Needs Block of the Dedicated Schools Grant, it is projected that there will be a deficit on this Block in 2022/23 of £2.7m. 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.
- 6.2 There is a fundamental financial risk to the Council and schools associated with the increasing cumulative deficit on the higher needs block which is part of the ring-fenced Dedicated Schools Grant. This deficit is forecast to be over £9m by March 2022 with a further £2.7m overspend in 2022/23. While the Council and schools work jointly to mitigate this financial pressure the only viable solution is a central government resolution to this issue. The current central government short-term “fix” of having a statutory override to reclassify the deficit on the Council’s balance sheet does not solve the issue. Inevitably if there is a risk that the council will have to fund this deficit then the fundamental financial impact on the Council will result in a s114 notice being issued and service and school spend being reduced or stopped
- 6.3 On the 17 February 2022 the Council was informed by the Department of Education that *“your authority will shortly be invited to take part in the ‘safety valve’ intervention programme with the DfE in 2022-23 financial year. The aim of the programme is to agree a package of reform to your high needs system that will bring your dedicated schools grant (DSG) deficit under control”*. Although the details of the consequences of the intervention are unknown, this letter at this stage can only be welcomed.

7. Robustness of the budget estimates

7.1 Key to budget setting is the robustness of the budget proposals, which is linked to both service demands, and the risks associated with those services. Several assumptions have been made in the development of the budget for 2022/23 to mitigate against the risks. Several specific risks and their mitigation are shown below:

Risk	Risk Rating	Mitigation
Covid-19	Medium	<p>The inclusion in the 2022/23 budget of ongoing Covid-19 financial impacts on both income and expenditure.</p> <p>A reserve is in existence for future Covid-19 issues.</p>
Performance of Subsidiary Companies	Medium	<p>Council's oversight as owner over its companies including attendance at Board meetings and review of performance.</p> <p>Council approval required for reserve matters and for investment/borrowing proposals.</p>
Inability to deliver a balanced budget over the next three financial years	High	<p>Work on future years financial position is ongoing led by the Chief Executive and Chief Finance Officer.</p>
Identified budget reductions for 2022/23 are not achieved	Low	<p>Monthly monitoring of current year financial position by Senior Leadership Team including a "savings tracker".</p> <p>Contingency budget in 2022/23 revenue budget.</p> <p>Directors, Divisional Directors and all managers have a responsibility to ensure they maintain spend within their approved budget allocation.</p> <p>The Council also has in place a series of regular revenue and capital monitoring reports, which are presented to the Overview and Scrutiny Board and the Council which review the budget on a quarterly basis throughout the financial year, which mitigates against the risk of inadequate financial control.</p>
Overspend against the proposed 2022/23 Children's Services budget	Medium	<p>The Director of Children's Services (DCS) has a service improvement plan and a sufficiency strategy with several work streams that has been established and being implemented, supported by a range of monitoring and performance arrangements. The Sufficiency Strategy has been updated to have a 3-year horizon.</p>

Risk	Risk Rating	Mitigation
		2022/23 Budget includes a £1m reserve for an increase in and numbers and or cost of looked after children.
Overspend against the proposed 2022/23 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 is included in 2022/23 NNDR income estimate.
Insufficient income generated	Medium	Annual cycle for budgeting. Prudent view taken of income streams in 2022/23 and a contingency held in respect of low rent levels because of Covid-19.
Insufficient investment fund income	Medium	Prudent view taken of income streams in 2022/23 and the Investment Fund reserve maintained.
Collectability of council tax and NNDR	Medium	In the light of ongoing economic uncertainty from Covid-19 and the pressure on household budgets from inflationary pressures including fuel and utility increases may result in lower collectability of these taxes in 2022/23.
Insufficient reserve levels because of a significant budget variance or unforeseen event.	Medium	Review of Reserves report presented to the Council and £5.6m expected balance at 2022/23-year end in the General Fund balance after an increase in that reserve and £3m target balance held in CSR Reserve. 2022/23 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. Interest rate rises could increase the future costs of council borrowing.
Inflationary pressures	High	Budget build has included estimates of inflation where applicable. Inflationary pressures are currently high (January CPI was 5.5%). Pay award and impact of living wage not nationally finalised for either 2021/22 or 2022/23 however contingency held. Capital Plan supported by the revenue budget establishes a £4m fund, supported by borrowing to facilitate capital projects where there has been cost inflation and or supply chain issues that could result in project cost increases.

Risk	Risk Rating	Mitigation
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 capital plan and partnership priorities	Medium	Provision in 2022/23 budget for £0.5m for capacity to deliver key Council projects, both revenue and capital.

7.2 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”.

7.3 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 2022/23 budget is based on robust budget estimates.

This opinion is supported by the current financial position for childrens social care, the three-year agreement for adult social care and the increase in Council reserves.

The key risks are outlined in the table above. In particular for 2022/23 I would highlight to Members the uncertainty caused by higher cost inflation on both revenue and capital spend”.

7.4 In relation to reserve levels, the statement in the 2022/23 review of reserves report is:

8 Chief Finance Officer Statement.

8.1 “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 2022/23 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment.

8.2 I fully support retaining the prudent levels in the general fund reserve at close to 5% of the Council’s net revenue budget and the continued, prudent use of reserves to support potential Covid-19 issues and the three-year impact of the 2020/21 collection fund deficit.

8.3 My statement for 2022/23 must be caveated due to the continued uncertainty around Covid-19. So far there is no announced financial support for 2022/23 to deal with increased expenditure or reduced income.

8.4 The adequacy of the Council’s reserves can be supported if the following actions are

undertaken:

- a) The Medium-Term Financial Plan includes an increase to the CSR reserve to achieve a minimum ongoing balance of £3m.
- b) That the Council maintains the focus on social care, both adults and childrens, as the biggest financial risks to the Council to deliver the identified improvements supported by a robust financial recovery plan and the sufficiency strategy
- c) That Council recognises the option of using borrowing to fund the capital plan to enable an increase to reserve levels by £3m if needed.

8.5 However, all consideration of reserves must recognise the fundamental financial risk to the Council and schools associated with the increasing cumulative deficit on the higher needs block which is part of the ring-fenced Dedicated Schools Grant. This deficit is forecast to be over £9m by March 2022. While the Council and schools work jointly to mitigate this financial pressure the only viable solution is a central government resolution to this issue. The current central government short-term “fix” of having a statutory override to reclassify the deficit on the Council’s balance sheet does not solve the issue. Inevitably if there is a risk that the council will have to fund this deficit then the fundamental financial impact on the Council will result in a s114 notice being issued and service and school spend being reduced or stopped.

8.6 At this stage with the significant uncertainty in relation to central government funding for 2023/24 I am currently only able to provide limited assurance in relation to 2023/24. 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) Establishing and then maintaining a balance on CSR reserve of £3m
- b) Protection to current level of General Fund Reserve
- c) No general reserves used to balance 2022/23 or future year budgets
- d) Specific material risks still mitigated for – e.g., 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 deliver its transformation programme at pace in the medium term
- g) Continued focus on mitigating and reducing spend in children’s’ social care
- h) That work continues the Adult Social Care improvement plans