

Meeting: Overview and Scrutiny Board
Council

Date: 20 November 2018
5 December 2018

Wards Affected: All Wards

Report Title: Budget Monitoring 2018/19 – 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

- 1.1. This report provides a **high level** budget summary of the Council's revenue and capital income and expenditure for the financial year 2018/19.
- 1.2. As at the end of quarter one 2018/19 the Council's **Revenue** budget is predicting an over spend of £2.4m for the financial year, primarily as a result of demand pressures resulting in expenditure pressures in children's social care. This is a clear improvement from the quarter one position however both the overall overspend and, within that, the overspend of £3.5m within Children's Services is a real cause for concern and in the absence of more compensating savings in other services the Council will continue to identify options to fund the over spend.
- 1.3. The Council's Senior Leadership Team have already put in place arrangements for a moratorium on all spend or recruitment that is not urgent or required to meet statutory duties. The Chief Finance Officer has arranged additional processes to monitor and challenge orders and contracts placed by the Council. The Chief Finance Officer has also provisionally allocated the entirety of the uncommitted balance on the Comprehensive Spending Review (CSR) Reserve in order to contribute to meeting the in-year overspend pending other recovery options including any proposals from the 2019/20 Review of Reserves.
- 1.3. The **Capital** Plan budget totals £200m for the 4 year programme, with £83m currently scheduled to be spent in 2018/19, including £45m on Investment Fund acquisitions, £2.6m on the Western Corridor and £12m on various Regeneration projects. The Capital Plan requires £0.9 million from (new) capital receipts and capital contributions over the life of the Plan.
- 1.4. Appendix Three is an expanded narrative of the **capital schemes** expected to incur expenditure in 2018/19 with a specific update for each project. This aims to provide

members with greater oversight of the progress on capital projects rather than a focus exclusively on financial issues.

2. Recommendation (s) / Proposed Decision

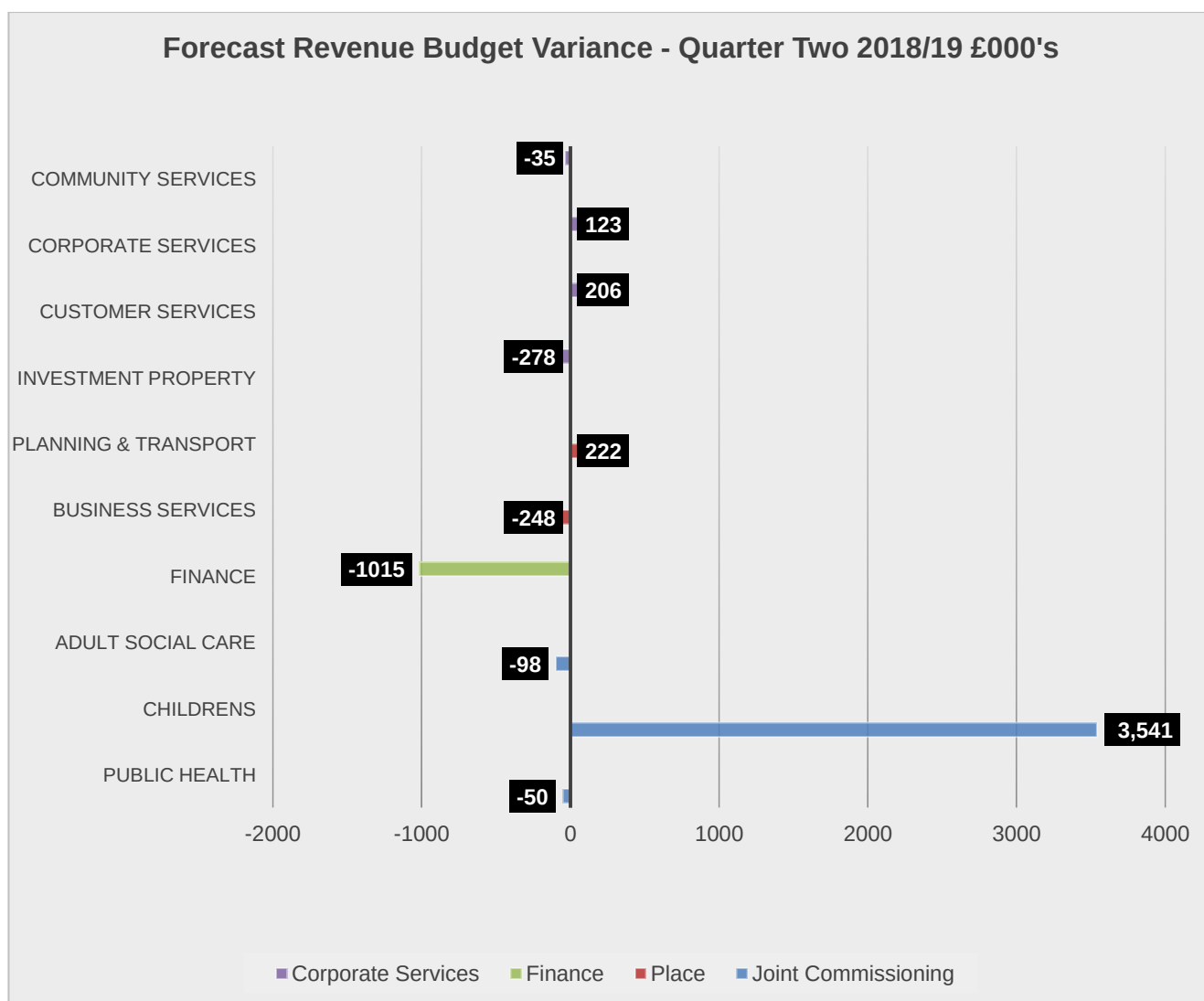
- 2.1 Overview and Scrutiny Board: That the Board considers the current position and make any comments and/or recommendations to the Council.

3. Reason for Recommendation/ Proposed Decision

- 3.1 Council: Monitoring Report for noting

4. 2018/19 Revenue Budget Summary Position

- 4.1 As at Quarter 2 the Council's revenue budget is predicting an over spend for 2018/19 of £2.4m, primarily as a result of a £3.5m overspend in Children's Services, offset in part by under spends in other services. The budgets are presented in line with the Council's management structure (applicable from 1st August 2018). A bar chart summarising the projected budget variance by service for 2018/19 is as follows:



Children's Social Care

- 4.2 The 2018/19 budget for Children's social care was increased by £3m, a 10% increase on the 2017/18 budget to reflect the levels of spend, in particular on looked after children.
- 4.3 As previously reported in the six months to end of June 2018 the service experienced a 20% increase in looked after children numbers. In December 2017 the number of looked after children was 293 which had increased to 358 by the end of June 2018. Anecdotally other Councils in the south west and nationally are also experiencing a rise in numbers, but not at the percentage increase Torbay is currently experiencing.
- 4.4 Although in the past quarter there has not been a net increase in the numbers of looked after children, the Director of Children's Services with the support of her team and finance colleagues have, for each child, reviewed the care plans, their duration and their costs for the remainder of the financial year. This has increased the forecast overspend for the year to £3.5m. There is a clear trend that the complexity and unit cost of many care plans are increasing, in part as a result of the national increase in demand for care.
- 4.5 It is also clear that the current position of increasing demand for social care combined with ongoing reductions in core funding is not sustainable. It is important that the Council continues to ensure that its voice is heard to ensure that future funding for local government recognises these increased and unavoidable costs.
- 4.6 Partly as a result of the increased national demand for children's social care there is an ongoing challenge to attract and retain experienced social care staff. As a result at the end of June 2018 the service was employing 50 agency staff which created an additional financial pressure upon the service. Action has been taken by the Director of Children's Services and her team to reduce this number to below 40 by the end of September.

Higher Needs Block – Special Education Needs

- 4.7 As previously reported 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, resulting in a forecast over spend in 2018/19 of £2.6m. 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 overspend in previous years has already resulted in a "negative" DSG reserve of £1m. The 2018/19 projected overspend will increase that to a cumulative deficit of £3m. This overspend has been "made good" by DSG funding in future years.
- 4.8 The Council will continue to work directly with schools to jointly work on a solution to this issue. For 2019/20 the Schools Forum, with support from the higher needs recovery group, have agreed both a package of funding and have supported the Council's "disapplication" request to the Department of Education to move funding from the schools block to the higher needs block within the Dedicated Schools Grant.. This will aim to set a balanced budget for the higher needs service in 2019/20. A consultation on the proposed changes was launched in October 2018.

- 4.9 If the Department for Education approve the disapplication, the movement of funding from the schools block to the higher needs block (within the total Dedicated Schools Grant) will be classed as an in-year virement as defined in the Council's Financial Regulations, with decision-making resting with the Chief Finance Officer, in consultation with the Director of Children's Services.

Investment Property

- 4.9 In the second quarter of 2018/19 the Council completed the purchase of two further properties, one in Exeter and one in Torquay, for a total of £22m including purchase costs. The costs of the borrowing required for the purchases are to be funded from future rental streams. In line with the Council's approved MRP policy, no MRP is charged in year of purchase which has enabled one off gain of £0.3m to be realised in year.

Adult Social Care

- 4.10 The majority of spend is with the ICO under a fixed contract payment. The Council will continue to work with its partners to allocate the Improved Better Care Fund in the most effective way for all partners. The Council has in October 2018 been allocated £0.829m of one off funding in 18/19 to support winter pressures in social care.

NNDR

- 4.11 As previously reported the initial monitoring of the 2018/19 position of all the Devon Councils in the Pilot is positive with a higher level of gain forecast for the Pilot. The quarter two Devonwide forecast position is in line with the first quarter therefore an additional £0.6m additional NNDR income above budget is now forecast. As the Pilot is not confirmed for next year this gain will be for the current year only.

Budget 2018

- 4.12 The Chancellor in his Budget 2018 announced late October 2018 announced additional national allocations of one off funding for Disabled Facilities Grants (£55 million nationally) and for Highways including potholes. These will be introduced into the Council's budget monitoring when Torbay's specific allocations are announced.

4.13 Detailed Position- The budget position for each service is shown in the table below:

Service	2018/19 Budget			Forecast Full Year Variance
	Expenditure £000s	Income £000's	Net £000's	£000's
Adult Social Care	52,936	(12,278)	40,658	(98)
Children's Services	81,879	(50,043)	31,836	3,541
Public Health	10,097	(721)	9,376	(50)
Joint Commissioning	144,912	(63,042)	81,870	3,393
Business Services	31,119	(16,864)	14,255	(248)
Planning and Transport	10,317	(2,599)	7,718	222
Director of Place	41,436	(19,463)	21,973	(26)
Community Services	4,362	(2,444)	1,918	(35)
Corporate Services	7,008	(2,073)	4,935	123
Customer Services	66,890	(63,468)	3,422	206
Investment properties	5,871	(8,923)	(3,052)	(278)
Corporate Services	84,131	(76,908)	7,223	16
Finance	20,942	(20,002)	940	(1,015)
Gross Revenue Budget	291,421	(179,415)	112,006	2,368
Sources of Funding	397	(112,403)	(112,006)	0
Net Revenue Budget	291,818	(291,818)	0	2,368

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

Service	Variance to Budget £m	Main Variances in 2018/19
Adult Social Care	(0.1)	Fixed payment agreed with ICO for 2018/19, with small underspends on some client budgets.
Children's Services	3.5	As detailed earlier
Public Health	(0.1)	Primarily a ring fenced budget
Director of Place	0	Projected over spend primarily linked to staffing issues in planning, offset by expected savings in concessionary fares and lower than budgeted waste tonnages.
Corporate Services	0.4	Projected over spend in governance, human resources, legal services and an income shortfall in printing offset in part by salary savings elsewhere in the services in this area.
Finance and Central	(1.0)	Primarily the £0.6m additional gain on NNDR Pilot with continued reductions on pension costs, additional investment income and a net saving within financial services.
Investment Properties	(0.3)	As detailed earlier
Sources of Funding	0	
Total	2.4	Projected over spend

5 **Action to Mitigate Overspend**

- 5.1 A reduced forecast overspend of £2.4m is a positive position in the light of the £3.5m overspend for Children's Services and shows the impact of the recovery action taken in the year so far and the staff and the Elected Mayor's support for this approach should be recognised.
- 5.2 However the projected overspend of £2.4m for the year based on the second quarter is still a cause for concern. The estimated "unallocated" balance on the Comprehensive Spending Review Reserve is insufficient to fund the projected overspend. In order to protect what remains of the CSR Reserve the Chief Finance Officer has provisionally allocated the balance to contribute to meeting the in-year overspend.
- 5.2 As previously reported the Chief Finance Officer continues to discuss the position with the Elected Mayor and his Executive Leads and the Senior Leadership Team and as a result a moratorium on all spend that is not urgent or required to meet statutory duties was been initiated along with other controls and checks.
- 5.3 The Chief Finance Officer with the support of the Senior Leadership Team will continue to:
 - a) Review earmarked reserves to both; apply reserves to spend in 18/19 where possible and transfer any "surplus" earmarked reserves to the CSR reserve.

Proposals arising from this will be included in the 2019/20 Review of Reserves report.

- b) Review the Capital Plan to “return” any revenue funding allocated to as yet unspent capital projects.
- c) Review corporate expenditure to consider whether any expenditure can be transferred to future years.
- d) Review the Capital Plan to consider the “pausing” of capital projects, including schemes using prudential borrowing that are funded from the Council’s revenue budget.

5.4 All the above are short term or “one off” measures to support the current position. The implications of the 2018/19 forecast on both the 2019/20 budget and reserve levels are included in the Elected Mayor’s budget proposals issued in early November 2018.

5.5 The impact of the actions taken/proposals will continue to be included in future monitoring reports.

Risks & Sensitivity

5.6 The predictions for the full year outturn in this report are based on six months of financial information and will be subject to changes in assumptions, demand and the impact of the action taken in year to mitigate the projected overspend.

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

Risk	Impact	Mitigation
Achievement of approved savings for 2018/19	Medium	18/19 Budget monitoring and "saving tracker" monitored by senior staff.
Achievement of Children’s Services cost reduction plan	High	Regular monitoring of performance and recovery plan.
Identification, and achievement, of £14.7m of savings for 2019/20 to 2021/22 per Medium Term Resource Plan March 2018	19/20 Low 20/21 and 21/22 High	Transformation Team set up to coordinate the implementation of potential transformation savings. Mayor’s 2019/20 budget proposals issued in early November 2018. Senior Leadership Team and Mayor’s Executive Group considering options for future years.
Unable to recruit staff and need to use agency staff.	High	Children’s Services have experienced difficulties for several years. This issue is now appearing in other services including planning and legal services.
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).
Additional demand for services particularly in children’s social care	High	18/19 Budget monitoring, use of service performance data and recovery plan.

Investment Property Income changes	Low	Regular review of income and tenant negotiation
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6. Balance Sheet issues

Borrowing

- 6.1 In quarter two the Council borrowed a further £5m, primarily to fund investment property acquisitions. Total borrowing as at 30th September 2018 was £282m. Borrowing is below the approved Operational and Authorised limits for the year.

Council Subsidiary Companies

- 6.2 The Council has interests in a number of companies. The financial performance for 2017/18 of these companies is included in the Council's statement of accounts (link below). <http://www.torbay.gov.uk/council/finance/statement-of-accounts/>
- 6.3 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.

7 Capital Plan Summary Position

- 7.1 The Capital Plan Budget has been updated for any further revision to both projects and timing, resulting in the latest revision attached at Appendix 1. The Plan now totals £200.4m over the 4 year period of which £83.4 m relates to 2018/19 and £80.9m relates to 2019/20.
- 7.2 The movements in the estimate of expenditure in 2018/19 on the Capital Plan between the last monitoring report at June 2018 of £85.8m and the current approved budget for 2018/19 of £83.4m are shown below. Please note the format of this table shows schemes ordered by Council's Targeted Actions, as is Appendix 1.

Scheme	Variation in 2018/19	Change £m	Reason
Estimate as at Q1 2018/19		85.8	Capital Plan Update – 2018/19 Quarter 1 (Report 20th Sept 2018)
Budget changes since last report (Q1 2018/19)			
Protecting Children			
Brookfield / Brunel Academy Phase 1	Transfer to New Scheme	(1.0)	Part budget to Brunel Academy Phase 2 Vocational Classrooms
Brunel Academy Phase 2 Vocational Classrooms	Transfer budget	1.0	Budget transfer from Brunel Phase 1
	Part budget moved to 19/20	(0.8)	Budget moved to 2019/20
Capital repairs & maintenance 16/17 & 17/18	Reallocation of part budget	(0.1)	Allocated to support Roselands Bulge Classroom and Ellacombe Early Years
Ellacombe Academy Early Years	Increase in budget	0.1	Additional funds from Education Review projects and external contribution

Education Review Projects	Reallocation of part budget	(0.2)	Allocation to Roselands
Roselands Primary – additional classrooms	New project	0.4	Transfer resources from Education Review (Basic Need allocation)
	Rephase budget	(0.4)	Most of budget moved to 19/20
		(1.0)	
More Prosperous Torbay			
Better Bus Area	Remaining budget removed	(0.1)	Unused budget removed
Old Toll House	Budget reduced	(0.1)	Project superseded by Investment Fund development
Transport – Integrated Transport Schemes	Budget moved to 19/20	(0.1)	Expenditure postponed under current moratorium
Transport – Torquay Town Access	Budget reduction	(0.1)	Grant funding reduced
		(0.4)	
Attractive and Safe place			
Brixham Harbour - Fendering	Increase budget	0.2	External Grant funding
Flood Alleviation - Cockington	Re phased budget	(0.1)	Part of Budget moved to 2019/20
Flood Alleviation - Monksbridge	Re phased budget	(0.1)	Part of Budget moved to 2019/20
Libraries Unlimited ICT Upgrade	New Scheme	0.1	Project agreed under contract by Council
Paignton Harbour Light redevelopment	Move budget	(0.5)	Budget transfer to 2019/20
Princess Pier – Structural repair	Transfer part of budget	(0.6)	Transfer part of budget to 2019/20
Torre Abbey Phase 3	Budget removed	(0.1)	Scheme removed following failure of bid to HLF
		(1.1)	
Protect and Support Vulnerable Adults			
		0	
Corporate Support			
Flexible Capital Receipts	Increase budget	0.1	Additional use for Transformational schemes
		0.1	
Estimate – Quarter Two 2018/19		83.4	

8 Updates to Capital Plan:

There are a number of variations to budgets on various schemes as detailed below.

8.1 Protecting Children

8.2 Brookfield / Brunel Academy Phase 1 – the plans to develop this site have been split into two elements, one to provide vocational classrooms for Brunel Academy (Phase 2 -

see para 8.3 below) and the other to provide a new entrance and multi-use games area for Brunel Academy (Phase 1).

- 8.3 Brunel Academy Phase 2 Vocational Classrooms - £1m of budget from Brookfield site has been utilised for this project, with most of the budget held in 2019/20.
- 8.4 Capital Repairs and Maintenance 2017/18 – £0.060m of this budget has been transferred to Ellacombe Academy Early Years Nursery to support elements of that project.
- 8.5 Capital Repairs and Maintenance 2018/19 – a programme of works to support maintained schools has been agreed. Some budget (£0.04m) has been transferred to Roselands to support the additional classrooms required and a small part of the budget (£0.02m) has been moved to next year to accommodate works which will be carried out over the summer holidays in 2019.
- 8.6 Ellacombe Academy Early Years – this scheme is now complete and has provided a 48 FTE place nursery facility. The budget has been increased by £0.1m using £0.06m funds from the School condition allocation (Capital Repairs and Maintenance 2017/18) to address condition elements of the project, along with a further £0.055m contribution from the Academy.
- 8.7 Education Review Projects – some of these resources have been allocated to Roselands Primary as agreed by Council in September (see para. 8.13 below).
- 8.8 Basic Need Grant – In the last Capital Plan monitoring report (Q1 2018/19) it was recorded that an allocation of £0.729m for year 2020/21 had been announced in recognition of the need for additional secondary school places. The bulk of this has been earmarked to provide additional Secondary places in Paignton (PCSA) since currently year seven places in Brixham and Paignton are full.
- 8.9 Medical Tuition Service relocation – In April 2018, Council approved a project to relocate the Medical Tuition Service (formerly EOTAS) to Parkfield utilising unallocated resources and up to £0.6m of borrowing. Currently it is anticipated that the scheme will be funded using £0.3m borrowing, £0.1m from 2020/21 Basic Need allocation and £0.2m from savings identified on existing Education schemes.
- 8.10 Roselands Primary extension – Scheme to provide additional accommodation for pupils until the new Paignton Primary School is opened. The estimated cost of this project of £0.6m was reported and approved by Council in October 2018, utilising the Council's 2019/20 Basic Need allocation (£0.560 m) to fund this work along with £0.040k from the Schools Condition (Capital Repairs and Maintenance)18/19 allocation. The bulk of this work will take place in 2019/20.
- 8.11 **More Prosperous Torbay**
- 8.12 Better Bus Area – the small remaining budget from this old scheme has now been removed from the Capital Plan as works have been completed.

- 8.13 Brixham Harbour Fendering – the total cost of this scheme has been increased to £0.3m to reflect the European Maritime and Fisheries Fund (EMFF) grant of £0.225m which has been awarded to help fund the work. There is no change to the Council's contribution to the scheme.
- 8.14 Claylands Redevelopment – Planning application has been submitted and the contract is currently out to tender with a projected start in November 2018 subject to an agreement with the prospective tenant.
- 8.15 Edginswell Business Park – negotiations for the acquisition of the site have resumed which require consequent legal advice.
- 8.16 Land Release Fund – Expenditure on these schemes is being captured in the Council's revenue accounts initially consequently there are few costs currently shown against these capital codes. However preliminary surveys, investigations, negotiations and legal advice are being undertaken, primarily at Victoria Square, Paignton for which some of the first tranche of grant funding has already been received, but also in respect of the Preston Down Road and Collaton St Mary sites.
- 8.17 Old Toll House – Significant plans are now in place to develop this site with a pre-let agreement in place. This project is now under the Investment and Regeneration "banner" and is funded from that budget and consequently the small remaining separate budget of £0.0130m has been removed.
- 8.18 Oxen Cove Shellfish Facility – Following the diversion of anticipated Marine Management Organisation (MMO) funding from this scheme to the Brixham Breakwater structural repairs scheme, the shellfish facility, which was programmed for 2019/20, has been aborted and removed from the Capital Plan as no resources are available to finance the project.
- 8.19 Transport Integrated Transport Schemes – A small transfer of budget (£0.1m) to future years has been made to delay expenditure under the Council's current spending moratorium.
- 8.20 Upton Place, Lymington Road Student Accommodation – This scheme has now been removed from the Capital Plan as any revised scheme would require a new business case and Council resolution.
- 8.21 **Attractive and Safe Place**
- 8.22 Cockington Flood alleviation – detailed design works are under way with start on site expected January 2019 and completion in June 2019. £0.07m budget has been moved to next year to reflect this. The Monksbridge Flood alleviation scheme is at the same stage again expecting to start on site in January 2019 and works expected to be complete by October 2019. Budget of nearly £0.130m has been moved to match these estimated spending patterns.

- 8.23 Flood Defence schemes (with Env Agency) – Projects for Paignton/Preston Flood Defence, Collaton St Mary, Paignton and River Fleet, Torquay are listed with the Environment Agency as potential projects requiring Environment Agency grant in aid in the coming years. Business cases will be submitted later in the year when the Environment Agency will review its capital plans at which point the Council's contributions, which are expected to be small, should be clearer and at that time a further update will be provided.
- 8.24 Libraries Unlimited ICT Upgrade – new scheme to upgrade ICT equipment within Torbay's libraries was agreed as part of the contract with Libraries Unlimited and agreed by Council on 7 December 2017 and has now been added to the Capital Plan, funded as approved from the CSR Reserve.
- 8.25 Torbay Leisure Centre – the programmed structural repairs were completed and a small remaining budget has been removed. Additional capital investment is being undertaken at the Leisure Centre by Parkwood with the help of a loan facility from the Council.
- 8.26 Torre Abbey Phase 3 – the Heritage Lottery Fund have announced that the Torre Abbey Phase 3 bid has been unsuccessful in securing grant in their current funding round. Consequently the budget for the Council's contribution to the project has been removed from the Capital Plan. If it is decided to pursue another bid to a later funding round then the scheme will be reinstated.
- 8.27 Torquay Harbour Beacon Quay Decking – a budget of £0.08m has been diverted from Princess Pier Structural repairs to enable the urgent replacement of decking along Beacon Quay. The costs of this work however have been included in the line for Princess Pier structural works.
- 8.28 Haldon/Princess Piers Structural repair – Most of the works planned for this year have been completed, including works to Beacon Quay decking. Consequently £0.600m of the budget is transferred to next financial year when further works will be undertaken.
- 8.29 **Protect and Support Vulnerable Adults – no updates for this quarter**
- 8.30 **Corporate Support – no updates for this quarter**

9 Receipts & Funding

- 9.1 The funding identified for the latest Capital Plan budget is shown in Annex 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:

	2018/19	2019/20	2020/21	2020/21	Totals @ Q2 18/19
Funding	£m	£m	£m	£m	£m
Unsupported Borrowing	58	68	33	0	159
Grants	20	10	3	0	33

Contributions	1	0	0	0	1
Revenue	0	1	0	0	1
Reserves	1	2	0	0	3
Capital Receipts	3	0	0	0	3
Total	83	81	36	0	200

10. Grants

10.1 The Council has been notified of the following capital grant allocation:

Marine Management Organisation –

Grant of £0.225 million, from European Maritime and Fisheries Fund, has been awarded to provide 75% funding of Brixham Harbour Fendering work. This grant is scheme specific and has been allocated to the project.

11. Capital Receipts

- 11.1 The removal of a few old budgets from the Capital Plan has slightly amended the overall funding position of the Plan and currently the approved Plan relies upon the generation of a total of £3.5 million capital receipts from asset sales by the end of 2019/20. The Council has received £2.8m at 1 April 2018, but little more by the end of September 2018, although there is a sale agreed “in principal”. Some of the funds held (£0.2m) belongs to a school so is not available to support the Capital Programme, leaving a target of £0.9m still to be achieved.
- 11.2 Any use of capital receipts to fund revenue transformation costs as allowed by the Government will increase this target. The Council is currently budgeting to use £0.4m for these purposes in 2018/19.
- 11.3 Council has approved the disposal of a number of sites at nil value for affordable housing including Redwell Lane, Paignton, Totnes Road, Paignton and St Kilda’s in Brixham. Whilst this is a valid decision and helps to meet the Council’s Housing Strategy outcomes, such decisions are against the approved Capital Strategy and makes the achievement of the capital receipts harder to achieve.

12. Capital Contributions – S106 & Community Infrastructure Levy

- 12.1 No significant Section106 capital contributions have so far been received in 2018/19.
- 12.2 The Council’s Community Infrastructure Levy (CIL) scheme came into effect from 1 June 2017. The main capital project identified for funding from CIL receipts is the South Devon Highway. No CIL funds have yet been received in 2018/19.

Appendices:

Appendix 1 – Capital Plan expenditure and funding summary – Quarter Two 2018/19
Appendix 2 – Capital Plan Project update – Quarter 2 2018/19