



# **REVENUE BUDGET 2018/2019**

## **Chief Finance Officer's Report**

Published: 1 February 2018

## **1 Introduction**

- 1.1 This report by the Council's Chief Finance Officer provides further information to support both the Mayor's Budget proposals and the Opinion on the robustness of the budget estimates which is included in the covering report to the Revenue Budget 2018/19.
- 1.2 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 2018/19 budget and raises issues for future financial years.

## **2 Overview – Context and Outlook**

- Budget Overview 2018/19
- Local Government Settlement 2018/19
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- Dedicated Schools Grant 2018/19
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- Estimation of Collection Fund Surplus/Deficit 2018/19
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- Longer Term Future Council Funding

## **3 Budget Overview 2018/19**

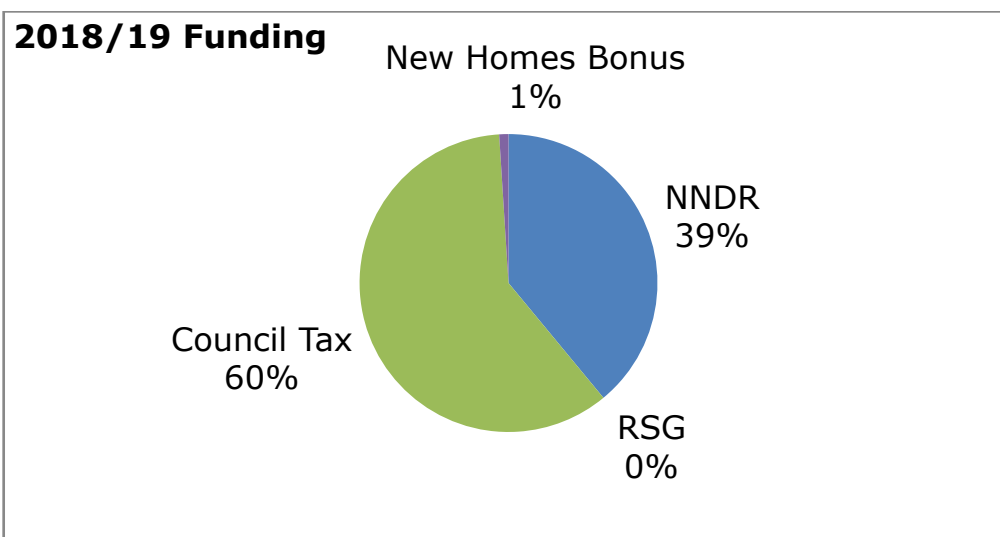
- 3.1 The 2018/19 budget is the first since the 2017 general election and the Chancellor's Budget in 2017. Central government has continued with the same financial plans for ongoing funding reductions in "core" funding for local government as before. The Ministry of Housing, Communities and Local Government (MHCLG, formerly DCLG) are continuing with the "four year offer" funding to Councils. This results in Torbay's Revenue Support Grant reducing from £27m in 2015/16 to £6m in 2019/20. For 2018/19 the reduction is £4m (from £14m to £10m).
- 3.2 These ongoing reductions in core funding combined with rising costs and demand continue to create significant financial challenges to the Council. Members need to consider the 2018/19 budget proposals in the context of the significant future year budget reductions required.
- 3.3 The provisional local government finance settlement for 2018/19 announced in December 2017 did however provide some additional funding options for Councils by a higher Council Tax referendum limit (2.99%) and by announcing 11 new 100% NNDR pilots for 2018/19 of which the Devon wide bid, including Torbay, was successful.
- 3.4 The Council's financial planning for 2018/19 started in June 2017 and the Mayor's provisional budget proposals were published on 23<sup>rd</sup> October 2017 enabling a period for consultation and scrutiny of the proposals. To achieve a balanced budget, the proposals for 2018/19 have required a range of reductions and income generation. This has required the proposal of a number of difficult choices for the Council. The reductions identified for 2018/19 are a good

step towards the total estimated reductions of £6m required for 2019/20. The forecast for 2020/21 is more uncertain due to the fundamental funding changes MHCLG are proposing to introduce in that year which will also be the first year after the next Central Government Spending Review.

- 3.5 The Elected Mayor's 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 additional funds for the safeguarding of children resulting in an increased budget for that service of over £2m.
- 3.6 To support the difficult budget challenges facing the Council it is proposed by the Elected Mayor that the Council increases its Council Tax requirement by 2.99%. In addition it is proposed by the Elected Mayor to take the option of supporting adult social care by raising the Council tax by a further 3%. - the maximum permitted in 2018/19 is 3%. As the Council has raised Council tax for Adult Social Care by 3% in both 2017/18 and 2018/19 there will be no rise for this service permitted for 2019/20, under the current rules.
- 3.7 Members of the Overview and Scrutiny Board (through the Priorities and Resources Review Panel) examined the proposals in detail and stakeholders and residents have had the opportunity to make representations on the proposals through the consultation. The Elected Mayor reviewed all of the responses received and the final saving proposals were drawn up after consideration of the responses.
- 3.9 This report supports the Revenue Budget 2018/19. Other budget related reports being presented to Council in February which are relevant to the Council's overall financial position are:
  - a) 2017/18 Revenue and Capital Budget Monitoring Report – Quarter Three
  - b) 2018/19 Capital Plan
  - c) Capital Strategy and Capital Receipts Strategy
  - d) Corporate Asset Management Plan
  - e) 2018/19 Treasury Management Strategy, including Investment Policy and Minimum Revenue Provision Policy
  - f) 2018/19 Review of Reserves
  - g) Annual Strategic Agreement (for adult social care)
- 3.10 Also relevant are:
  - h) Children's Services Financial Plan (February 2017)
  - i) Medium Term Resource Plan (on website)
- 3.11 Budget Digest pages, Fees and Charges and updated budget proposals sheets are available separately along with any relevant equalities impact assessments.

3.12 A summary of the Council's 2018/19 budget is as follows:

	<b>2018/19</b>	
	£'000	£'000
<b>Mayor's Budget Proposal:</b>		
Net Revenue Expenditure	110,155	
Adult Social Care funded from 3% Council Tax	1,851	
Total Net Revenue Expenditure		112,006
<b>Funded By:</b>		
Business Rate Retention Scheme	43,378	
Revenue Support Grant	0	
New Homes Bonus Grant & LSSG	1,435	
		44,813
Council Tax Requirement	65,477	
Collection Fund - NNDR/Council Tax	1,716	
		67,193
Total Income		112,006



3.13 Under a NNDR 100% pilot the Council retains more NNDR income (99% compared to 49%). To make the change “fiscally neutral” the Revenue Support Grant is reduced from £10m to nil and the Councils NNDR top up grant is also reduced from £14m to £8m. If a higher level of funding from NNDR is a permanent funding feature from 2020/21 then the balance of funding in 2018/19 can be regarded as a future look to a position where 99% of the Council's general funding comes from local taxation. This reinforces the need/incentive for the council to grow both its council tax and NNDR taxbase.

3.14 A summary of budget by Service area is shown in the table below.

Business Unit/Service	2018/19		
	Expenditure	Income	Net
	£000's	£000's	£000's
<b>Joint Commissioning Team (JCT)</b>			
Adult Social Care and Housing Total	51,247	10,332	40,915
Children's Services	78,026	46,991	31,035
<i>Of which estimated Dedicated Schools' Grant</i>	<i>37,000</i>	<i>37,000</i>	<i>0</i>
Public Health	10,318	942	9,376
<b>Sub Total – Joint Commissioning Team</b>	<b>139,591</b>	<b>58,265</b>	<b>81,326</b>
<b>Joint Operations Team (JCT)</b>			
Corporate Services and Operations	115,774	96,117	19,657
<i>Of which Housing Benefit Payments &amp; Subsidy</i>	<i>66,369</i>	<i>66,818</i>	<i>(449)</i>
Commercial Services and Transformation	33,680	22,657	11,023
<b>Sub Total – Joint Operations Team</b>	<b>149,454</b>	<b>118,774</b>	<b>30,680</b>
<b>TOTAL</b>	<b>289,045</b>	<b>177,039</b>	<b>112,006</b>

#### 4 Local Government Settlement 2018/19

4.1 The MHCLG announced the provisional Local Government Finance Settlement on 20th December 2017. Since that date a number of individual departmental announcements have also been made. Where these are known, these have been included in the 2018/19 budget proposals.

4.2 The key issues from the announcements (to date) are as follows:

- The Council's Revenue Support Grant (RSG) is as per the four year funding "offer" linked to the submission of an Efficiency Plan in October 2016. Torbay's RSG is to reduce from £20m in 2016/17 to £14m in 2017/18, reduce to £10m in 2018/19 and to £6m in 2019/20.
- Referendum limit for all Councils set at 3% and over for 2018/19, or by £5 (excluding the option for adult social care). MHCLG projections of spending power for Councils assume that this rise is approved. The indicative limit for 2019/20 is also 3% and over.
- There were no (new) changes to the calculation of the New Homes Bonus Grant. The "reward" for housing growth will continue to be paid for four years (not six years as per the original scheme). Reward will only be paid on growth over a threshold of 0.4% (not 0% as per the

original scheme). The consultation to only pay on planning approvals for housing granted without an appeal has been removed.

- No (national) support or recognition for funding issues in Children's Social Care.
- 11 new 100% NNDR pilots for 2018/19, of which the Devon wide bid, including Torbay, were announced. (See section 5 below).
- From 2020/21 the MHCLG intend to introduce a 75% NNDR retention scheme for all Councils. It is understood that this can be allowed under the current NNDR legislation whereas a 100% scheme would require primary legislation.
- In addition the MHCLG intend to introduce a new funding formula to allocate new funding baselines and income baselines to all councils from 2020/21. The aim is to have as simplified a formula as possible that focusses on a limited number of key cost drivers. Over the next 18 months there will be a number of consultations on overall formula design and on each area for the key cost drivers.
- 2020/21 will also be the first settlement after the next central Government Spending Review in 2019. That uncertainty combined with a new 75% NNDR scheme and a new funding formula makes longer term financial planning very challenging!

4.3 Note: in writing this report (22/1/18) the final local government finance settlement has not been issued by MHCLG, (expected before the parliamentary recess in February).

## **5 NNDR 100% Pilot 2018/19**

- 5.1 Before the 2017 election it was MHCLG's intention to introduce a 100% NNDR retention (currently 49%) by "end of parliament". A Local Government Finance Act was expected in 2017 to establish the legal basis for this change however this was not included in the Queens Speech for the business of the new government. As a consequence MHCLG invited Councils to submit bids for 100% NNDR pilot areas.
- 5.2 A Devon Wide bid was submitted for all Councils in Devon, including Torbay and the Devon bid was one of 11 that were agreed. As a 100% Pilot the previous NNDR pool arrangement now ceases.
- 5.3 In summary the 100% scheme allows all Councils in Devon to retain all (100%) NNDR growth above the original 2013 NNDR income baselines instead of sharing 50% with MHCLG. The locally agreed scheme between the Councils ensures that no Council will be any worse off than under the 50% scheme and all Councils to get a "minimum funding level". For districts this is £0.5m and for the two unitary Councils this is £1.5m. Plymouth City Council will, as with the NNDR pool, act as host.
- 5.4 In addition where there is NNDR growth anywhere in Devon, above the minimum funding levels, this will be shared. 50% to be allocated as per the current system to the district/unitary council where the growth occurs and the County Council. The 50% that would have been passed to MHCLG will then be shared between all Councils.
- 5.5 The pilot has only been announced for 2018/19 only. It would be reasonable to assume that this may be extended to 2019/20 but unlikely for 2020/21 due to all the other fundamental funding changes proposed for that year. The Council will therefore need in its financial planning to assume

a reduction in NNDR income when the pilot period ends.

## **6 Dedicated Schools Grant**

- 6.1 The Council has to confirm that it will be directing the entire grant received in respect of Dedicated Schools Funding through to those areas defined in the School Finance Regulations. For 2018/2019 the allocation of Dedicated Schools Grant (DSG) before academy school recoupment is £99.7m. Of this total, it is estimated that approximately £37m will be retained in the Council's budget for expenditure related to its (maintained) schools and other residual functions.
- 6.2 The DSG and the schools funding formula is being changed with full introduction of a new national simplified minimum per pupil funding formula from 2020/21. DSG from 2018/19 is now allocated over four "blocks" – schools, central schools, early years and higher needs. Movement of funding between these blocks is now severely limited and will cease altogether for schools block from 2020/21 with the introduction of the national school funding formula.
- 6.3 Under the current regulations a local area can continue to take local decisions on the allocation of the school block until the new national formula is in place in 2020/21. The Schools Forum proactively established a task and finish group of representatives across all educational phases to ensure that allocations to schools in the interim delivered the minimum funding allocation per pupil whilst minimising the disruption to individual school budgets whilst moving to the principles of the new national formula.
- 6.4 It should be noted that this estimated figure will be adjusted throughout the year to reflect changes to early years funding and any Academy conversions. It is recommended that the Chief Finance Officer be authorised to make appropriate changes as and when the funding changes.
- 6.5 There are currently two key pressures within the DSG associated with the Early Years and Higher Needs blocks. The Early Years pressure results from a higher number of local children being eligible than the DfE has funded. Although a budget adjustment is made using census data a significant gap has occurred since the expanded Early Years offer was introduced. Repeated representations have been made with the DfE by Torbay and other Councils who are, as a result funding a national offer with insufficient funding being provided at a local level. The pressures on the Higher Needs block arise from the level of demand and referrals from schools for support to pupils. The overspend on the block in 2017/18 is estimated to be £1.2m and is expected to rise in 2018/19. In recognition of this pressure Schools Forum helpfully agreed to move 0.5% of the school block to higher needs, which is the maximum permissible under the current arrangements. The Council and Schools Forum have also set up a group to implement a "higher needs financial recovery plan". Until the higher needs block achieves financial balance by 2020/21 the DSG reserve will be used to fund the cumulative deficit.

## **7      Adult Social Care**

7.1      The budget for Adult Social Care comprises the following elements

### **2017/18**

<b>Total ASC 2017/18</b>	<b>39,060</b>
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### **2018/19**

Total ASC 2017/18	39,060
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3% Council Tax Precept	1,851
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ICO Efficiencies/Savings	(900)
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2017/18 one off grant	832
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Other changes	72
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<b>Total ASC 2017/18</b>	<b>40,915</b>
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Net Increase year on year	1,855    5% increase
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7.2      The summary above demonstrates that the Council expenditure on ASC has increased year on year over the value of the 3% council tax precept raised for adult social care. This additional funding is expected to be used to support investment in Adult Social Care to both reduce future costs and demand and support the service's needs as outlined in the Annual Strategic Agreement.

7.3      For clarity the Council's budget proposals for 2018/19 includes the contract sum as agreed in the September 2017 Risk Share Agreement to the ICO for adult social care of £39.4m plus a one off £0.6m to a total of £40.0m. The budget proposals include the continuation of the subsidy to the CCG of £0.9m as a result of the mediation process in 2016/17 between the council and the CCG for the Better Care Fund. If the current RSA does expire then this payment will not be made beyond that point and the Council and CCG will have to renegotiate the allocation of the Better Care Fund in line with national guidance.



## 8 Children's Services

### 8.1 The budget for Children's Services comprises the following elements

#### 2017/18

<b>Total Children's 2017/18</b>	<b>28,726</b>
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#### 2018/19

Total 2017/18	28,726
Budget – rebase	2,500
Budget – future demand	500
MTRP savings	(1,479)
Inflation	592
Funding Change	145
Other Changes	51

<b>Total 2018/19</b>	<b>31,035</b>
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Net Increase year on year	2,309	8% increase
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8.2 The budget proposals have reflected the current financial issues within the service and have provided a contingency for future cost pressures, whether from demand, case complexity or unit costs. The service's Ofsted improvement plan supported by the revised Medium Term Financial Strategy (approved February 2017) remain in place. The approach places a focus on activity that will improve outcomes for children and families whilst also addressing areas of high aggregate spend and per capita costs. As a result, the base budget for Children's Services, has for 2018/19, increased by over £2.3m – an 8% increase.

8.3 From April 2018 the Council is expected to have a partnership arrangement in place with Plymouth City Council for the management of the service. This will result in Torbay appointing the Director of Children's Services at Plymouth (when known) as the Director of Children's Services for Torbay. The following is an extract from the agreed "programme vision document" with Plymouth City Council that helpfully summarises the financial relationship from April 2018

"Each council area will retain financial and statutory accountability for their children's services"

"The joint DCS will be a full member of both council area's senior leadership teams and will also be expected to report and be accountable to each council areas respective governance structures"

"Both councils will retain financial accountability for children's services and Torbay Council will provide Plymouth City Council with the appropriate budget for the operational delivery of children's services. The budgets for both councils will not be pooled and the section 151 officers for both council areas will continue to provide financial oversight and scrutiny of their respective budget in relation to children's services"

## 9 Estimation of Collection Fund Surplus/Deficit

- 9.1 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. 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%.
- 9.2 The latest estimate of the Collection Fund in year in respect of Council Tax as at 31 March 2018 is a £2.5m surplus. This surplus has to be shared in 2018/19 between Torbay Council, Devon and Cornwall Police and Crime Commissioner's Office and Devon and Somerset Fire and Rescue Authority in accordance with their demands on the Collection Fund for 2017/18. The estimated share of the 2017/18 surplus to be distributed in 2018/19 is as follows:

	Share of Surplus £m	Share %
Torbay Council	2.113	84%
Devon and Cornwall Police and Crime Commissioners Office	0.268	11%
Devon and Somerset Fire and Rescue Authority	0.125	5%
Totals	2.506	100%

- 9.3 As a local precepting authority, as defined in the Local Government Finance Act 2012, Brixham Town Council will not be entitled to a share of any surplus or deficit on the collection fund.
- 9.4 National Non-Domestic Rates**
- 9.5 The Council's NNDR income in 2017/18 comprises 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 assessed in 2013).
- 9.6 For 2018/19 as outlined above Torbay will be part of a Devon wide 100% NNDR pilot. Under this scheme Torbay will retain 99% of NNDR income (with 1% still relating to the Devon and Somerset Fire), with NNDR growth shared between all Councils.
- 9.7 The 2017 NNDR revaluation impacted on Torbay. Whilst MHCLG stated their intention for this change to be fiscally neutral to councils, for Torbay the gross rateable values fell 6% from £98m to £92m. MHCLG have continued to adjust Torbay's Top Up grant with a final adjustment to the Council's 2018/19 grant expected in the final settlement based on the latest valuation office information.
- 9.8 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 a new area which has caused further complications for medium term financial planning. Overall the Council has declared an estimated deficit position of £0.810m on its Collection Fund in respect of NNDR as at 31st March 2018. As this relates to 2017/18 this is apportioned between the Council (49%), the Devon and Somerset Fire and Rescue Authority (1%) and central government (DCLG) (50%). The Council's share of the deficit is £0.397m.

## **10 Council Tax and Referendum Limits**

- 10.1 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. This has been set at 3% or over for 2018/2019. The Elected Mayor's budget proposal is for a 2.99% increase in this element.
- 10.2 The Council is responsible for social care and is therefore able to raise its Council Tax by a further 3% in 2018/2019 subject to the increased tax income being allocated to adult social care. The Elected Mayor's budget proposal is for a 3% increase in this element. A three percent rise generates £1.851m for adult social care. Therefore the Elected Mayor is proposing an overall 5.99% rise in the Torbay Council share of the Council Tax for 2018/2019.
- 10.3 Councillors 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. 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. Councillors will also be aware that, in addition, there will be a separate Council Tax charge for residents in the Brixham Town Council area.
- 10.4 At the time of writing, Brixham Town Council, the Devon and Cornwall Police and Crime Commissioner's Office and the Devon and Somerset Fire and Rescue Authority have not set their budgets for 2018/2019 or their Council Tax level. For 2018/19 the Police and Crime Commissioner is allowed to raise their element of the Council tax bill by £12 (Band D) which equate to a rise of 7% on their precept. Once these have been declared they will be including in the Council Tax setting report which will be presented to the Council at the end of February 2018.
- 10.5 The Council taxbase report in December 2017 referred to a proposal to increase the premium for long term empty homes. It is now expected that the relevant legislation will not be in place by April 2018 therefore this change is now likely to be applicable from April 2019.
- 10.6 In 2017/18 the Torbay Council area had the lowest band D Council Tax in Devon at £1,634.78 including Adult Social Care, Fire and Police precept but excluding parish precepts. A summary of other local Council's Band D rates are as follows:

	Torbay (Unitary council)	Plymouth (Unitary council)	Exeter (City Council)	South Hams (District Council)	Teign – bridge (District Council)
District Council	-	-	145.05	155.42	160.17
Devon County (including Adult Social Care precept)	-	-	1,267.92	1,267.92	1,267.92
<b>Total including Adult Social Care Precept</b>	<b>1,376.93</b>	<b>1,407.47</b>	<b>1,412.97</b>	<b>1,423.34</b>	<b>1,428.09</b>
Fire & Police	257.85	257.85	257.85	257.85	257.85
<b>Band D (excluding parish precepts)</b>	<b>1,634.78</b>	<b>1,665.32</b>	<b>1,670.82</b>	<b>1,681.19</b>	<b>1,685.94</b>

- 10.7 The differential between Torbay and the other Councils increases when Town and parish precepts are added. The 2017/18 precept for Brixham Town Council was £43.04 and typical average values for other Councils is between £50 and £65.

## 11 Better Care Fund (BCF) and Improved Better Care Fund (IBCF)

- 11.1 From April 2015 central government integrated some social care funding and some health funding into a Better Care Fund which is operated as a pooled budget (approx £12m) between the Council and the Clinical Commissioning Group (CCG) as the host. For the Council this includes the s256 funds (£3m) the Council had received directly for adult social care.
- 11.2 The original Better Care Fund allocations have been increased since 2017/18 by the Improved Better Care Fund. The governance and reporting for the IBCF is similar to the BCF however the IBCF is directly awarded to the Council and is for adult social care. The Council is host for the IBCF. For the Council in 2018/19 the IBCF allocation is £6.1m of which some funding has already been used to fund the Council's payment to the ICO under the revised Risk Share Agreement.

## 12 Link between Capital plan and Revenue budget

- 12.1 There is always a strong link between the Council's capital expenditure and its revenue income and expenditure in particular from capital expenditure funded from borrowing. All borrowing will result in increased revenue costs from both interest costs and principal repayments (reflected by the minimum revenue provision). For the majority of schemes, such as an "invest to save" scheme, these costs should be offset by an income or rental stream. There have, however, been capital projects approved funded initially by prudential borrowing that have an ongoing revenue cost.
- 12.2 The Capital Plan 2018/19 and the Capital Strategy 2018/19 identifies the schemes funded from both types of prudential borrowing and the potential value of borrowing and ongoing interest and principal repayment costs. As the Council significantly increases its range and value of schemes funded from prudential borrowing it is important that all members are aware of the overall current and potential future levels of borrowing the risks and rewards associated.
- 12.3 As at 22/1/18 the Council's external borrowing is £273m. The Council's capital plan for 2018/19 identifies £115m of schemes to be funded from borrowing with a further £49m in 2019/20 and 2020/21. The Council's external debt could then exceed £437m with a resulting increase in

borrowing costs. Further analysis of the Council's borrowing and the schemes it relates to is contained in the 2018/19 Capital Strategy.

	As at 31/12/17 £m	%	Projected £m	%
Supported Borrowing	73	27	73	17
Devon County Council	19	7	19	4
Investment Fund	120	44	200	46
Other Prudential Borrowing	61	22	145	33
	<b>273</b>		<b>437</b>	

- 12.4 A debt of this level is a key consideration for the Council. The Council should comply with the standards of decision making for prudential borrowing as per the Local Government Act 2003 supported by proper practice as outlined in the Prudential Code and Treasury Management Code of Practice. Both codes have been reissued in December 2017. The key consideration is whether any borrowing is "prudent". The focus and due diligence therefore is, not so much on the total borrowing, but the robustness of the business case with a particular focus on future income streams and future asset values. All Members need however to be aware of the risks and rewards of each scheme and the proportionality of the total borrowing, ongoing borrowing costs and total income streams in relation to the Council's budget and balance sheet position.

### 13 External Peer Reviews

- 13.1 In November 2016 the Council's financial position and its financial management was subject to two "peer" reviews from the LGA and CIPFA. Both reports were reported to Council at its meeting on 2 February 2017. The reviews were useful in that they both highlighted a number of key issues for the Council. There were a number of issues particularly relevant to the Council's finances and they are useful to repeat:

- Need to make tough financial decisions at pace to achieve a balanced budget
- Need to ensure due diligence is maintained when doing "new" activities
- Focus on the key issues that will make a financial difference
- *Critically review the current RSA for ASC (revised RSA in place from October 2017)*
- Support service improvements in Children Services
- *Increase levels of both uncommitted (CSR) and general reserve (reserves report 18/19)*
- Ensure have the correct capacity to ensure the achievement of financial gains

### 14 Transformation

- 14.1 Key to the longer term financial viability of the Council's 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 the 2018/19 budget. Projects include libraries outsourcing, investment fund, Parkwood leisure contract, income optimisation and improving collection fund income.

- 14.2 The financial challenge facing the council is significant and therefore the transformation process is key to bringing forward viable projects “at pace”. It is expected that the Council’s 2019/20 and 2020/21 budget will be significantly informed by these projects.

## **15 Longer Term Future Council Funding**

- 15.1 Torbay in October 2016 accepted DCLG’s offer of a four year minimum funding settlement therefore the Council’s core funding will reduce by a further £4m in 2019/20. Two issues impacting on Council funding in 2019/20 will be the possible continuation of the NNDR 100% pilot for another year and the indicative higher Council Tax referendum limit of 2.99%. In addition during 2019/20 the future of the Risk Share Agreement within a changing NHS regime beyond the current five year period should be confirmed.
- 15.2 The Medium Term Resource Plan will be updated by the end of March 2018 to include the impact of the 2018/19 budget and the latest estimates of future year costs and funding. As an initial guide, prior to more detailed work being undertaken post budget setting, it is estimated that between 2019/20 and 2020/21 the Council will require in the region of £8m of reductions to achieve a balanced budget.
- 15.3 Section 4 above outlined some of the changes and challenges for 2020/21 onwards announced by MHCLG in the local government finance settlement;
- From 2020/21 the MHCLG intend to introduce a 75% NNDR retention scheme for all councils;
  - In addition the MHCLG intend to introduce a new funding formula to allocate new funding baselines and funding baselines to all councils from 2020/21. The aim is to have as simplified a formula as possible that focusses on a number of key cost drivers. Over the next 18 months there will be a number of consultations on overall formula design and on each area for the key cost drivers;
  - As 2020/21 will also be the first settlement after the next central Government Spending Review in 2019, that uncertainty combined with a new 75% NNDR scheme and a new funding formula makes longer term financial planning very challenging!
- 15.4 The aim is that Councils will then be significantly self-sufficient from central government “core” funding with the Council funding being 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 on need. A key issue for Councils with taxbase growth is how much of the “gain” will be lost on any reset of baselines.
- 15.5 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. This is the situation in 2018/19 under the Devon wide NNDR 100% pilot.