TORBAY COUNCIL

Chief Finance Officer's Report

19 January 2021

Budget 2021/22

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Introduction

1. This report by the Council’s Chief Finance Officer provides further information to support the Partnership’s Budget for 2021/22.

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 2021/22 budget and raises issues for future financial years.

Budget Overview

3. These budget proposals are presented in the light of considerable financial uncertainty from the COVID-19 health pandemic.

4. The ongoing financial impact of COVID-19 will have a significant impact on the 2021/22 budget. The impact on the Council’s income, expenditure and funding is outlined in the Medium Term Resource Plan and the 2021/22 budget proposals. Clearly the financial impact on 2021/22 and future years can only be an estimate and officers will continue to update estimates and will continue to aim to mitigate as far as possible any financial impacts.

5. In October 2020 an additional £1 billion of funding was announced for local government COVID-19 pressures. Torbay’s allocation of this was £1.6m. It is recommended that this funding is allocated to an earmarked reserve to be used to support on-going COVID related financial pressures.

6. 2019/20 was the final year of a four year funding settlement. As context Torbay’s Revenue Support Grant has reduced from £42m in 2013/14 to £6m in 2019/20.

7. The Provisional 2021/22 Local Government Finance Settlement was announced on the 17 December 2020 and was similar to 2020/21; i.e. a one year only “roll over” settlement with some one-off grant allocations for COVID-19 pressures. Consequently there is still considerable funding uncertainly from 2022/23 onwards. In addition MHCLG, for a second year, delayed the introduction of a new funding formula and a revised NNDR system by a further year to April 2022 at the earliest.

8. The Council’s financial planning for 2021/22 started in March 2020 and the Partnership’s provisional budget proposals were published on 20 October 2020, enabling a period for consultation and scrutiny of the proposals.

9. The Council has received funding in 2020/21 to support some of the costs the Council has incurred in relation to COVID-19 including a number of specific grants and a 75% service income loss compensation grant. Where the council has received a specific grant allocation, but has not fully spent the same by end of March 2021 this funding will be “carried forward” into 2021/22 for the purpose identified in the grant allocation.

10. The Council is permitted to carry forward any specific 2020/21 collection fund losses to be funded over the following three financial years. The Council will transfer funds from 2020/21 to an earmarked reserve to cover this deficit over the three years.

11. The Partnership's budget proposals have sought to limit the impact of the reductions on the more vulnerable in society and in a number of areas, such as housing, the Council is proposing to allocate additional funds to reflect the changes in demand for services for the ongoing COVID-19 impact.

12. It is proposed by the Partnership that the Council increases its Council Tax requirement by an inflationary 1.99%.

13. In addition it is proposed to increase Council tax specifically for Adult Social Care by a further 3% in 2021/22.

14. Members of the Overview and Scrutiny Board (through the Priorities and Resources Review Panel) examined the proposals in detail and stakeholders and residents had the opportunity to make representations on the proposals through the consultation. The Partnership have reviewed the responses received and the final budget proposals have been drawn up after consideration of the responses.

15. This report supports the Proposed Revenue Budget 2021/22. Other budget related reports will be presented to Council in February 2021 which are relevant to the Council's overall financial position are:

    a. 2021/22 Capital Strategy and Capital Receipts Strategy,
    b. 2021/22 Treasury Management Strategy, including Investment Policy and Minimum Revenue Provision Policy,
    c. 2021/22 Review of Reserves,
    d. Annual Strategic Agreement (for adult social care).

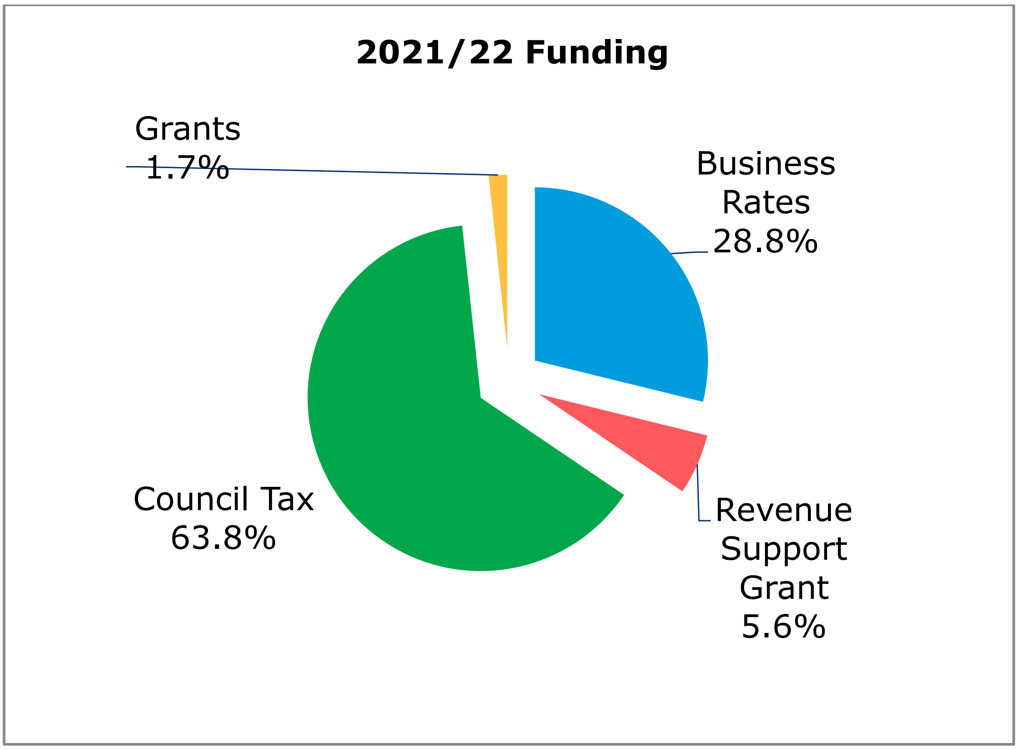
16. Also relevant are:

    e. Medium Term Resource Plan (on website),
    f. Corporate Asset Management Plan,
    g. 2020/21 Revenue and Capital Budget Monitoring Reports.

17. Budget Digest pages, Fees and Charges and budget proposals sheets are available separately along with any relevant equalities impact assessments.

18. A summary of the Council's 2021/22 budget is as follows:

Partnership's Draft Budget Proposal 2021/22	£'000	£'000
Net Revenue Expenditure	115.5	
Total Net Revenue Expenditure		**115.5**
Funded By:		
Business Rate Retention Scheme	33.7	
Revenue Support Grant	6.6	
New Homes Bonus Grant and other grants	2.0	**42.3**
Council Tax Requirement	74.6	
Collection Fund Surplus/(Deficit)	(1.4)	**73.2**
Total Income		**115.5**



19. A summary of the proposed 2021/22 budget by Service area is shown in the table below.

Directorate/Service	Expenditure £m	Income £m	Net £m
Adult Services	56.2	(14.3)	41.9
Children's Services	100.9	(56.2)	45.7
Dedicated Schools Grant included in Children's Services. 2021/22 (estimated)	*44.4*	*(44.3)*	*0*
Public Health	10.0	(0.3)	9.7
Sub Total – Joint Commissioning Team	**168.1**	**(70.8)**	**97.3**
Corporate Services			
Community Services	6.8	(4.2)	2.6
Corporate Services	8.7	(2.7)	6.0
Customer Services	47.2	(44.0)	3.2
Housing benefit included in Customer Services	*42.2*	*(42.2)*	*0*
Sub Total – Corporate Services	**62.7**	**(50.9)**	**11.8**
Finance	**28.6**	**(38.2)**	**(9.6)**
Place			
Business Services and Regeneration and Assets	32.3	(18.9)	13.4
Investment Properties	9.5	(14.1)	(4.6)
Planning and Transport	9.6	(2.4)	7.2
Sub-total – Place	**51.4**	**(35.4)**	**16.0**
TOTAL	**310.8**	**(195.3)**	**115.5**
Sources of Funding			
Council Tax			74.6
Collection Fund Surplus/(Deficit)			(1.4)
Revenue Support Grant			6.6
Business Rates (NNDR)			33.7
New Homes Bonus and Other Grants			2.0
TOTAL			**115.5**

COVID-19

20. The financial impact of Covid-19 has constantly evolved during the 2020/21 financial year and will continue to change. At this stage, the financial impact in the next year can only be estimated. However, a number of specific issues are emerging and have been reflected in this draft budget.

21. The estimated financial impact of the pandemic that will continue into 2021/22 is £7.4m – this is based on the current Covid-19 position in Torbay. How the pandemic progresses from here is likely to have a further impact. The key issues, which are known at this point, are set out in the following paragraphs.

22. We are forecasting a shortfall in our Collection Fund for the current year of up to £5m. Our accounting rules mean that any in-year deficit is “rolled” forward to the next financial year to be funded.

23. The Ministry of Housing, Communities and Local Government (MHCLG) announced its intention to allow any Collection Fund deficit in 2020/21 to be spread over three financial years from 2021/22. MHCLG have also announced a one off grant to support for councils for irrecoverable losses in a Council’s tax base, but not for any losses in collection of tax. The detail of this grant is currently uncertain and is likely to be accounted for in 2020/21.

24. The Council Tax Support Scheme is to support residents with their Council Tax bills. For working age claimants the level of support is linked to their household income. Since March 2020 with the start of “lockdown” and its economic impact, the number of claimants for this scheme has increased. These costs have been estimated at £0.750m (a 1% impact on total Council Tax income).

25. The Council’s share of Council Tax in 2020/21 was over £72m. In the current year, up until September, we have seen a cash reduction of 4% in year-on-year collection of Council Tax which has been attributed to the impact of Covid-19. The ongoing impact on the collectability of Council Tax in 2021/22 due to the economic conditions has been estimated at 2% i.e. £1.5m.

26. The Council’s share of National Non-Domestic Rates (NNDR) (otherwise known as Business Rates) is over £19m a year. Again, in the current year to September, we have seen a cash reduction in year-on-year collection of NNDR. Two thirds of Torbay businesses are in retail, leisure or hospitality and given the current economic conditions, the ongoing impact on the collectability of NNDR in 2021/22 has been estimated at 5% or £1.0m.

27. The Council has outsourced contracts for the leisure centre at Clennon Valley and the Riviera International Conference Centre (albeit the Council now controls the Board of the Riviera Centre). Both centres have seen a complete cessation of their income during “lockdown” and are unlikely to achieve historic income levels for up to two years. As a result both centres are in financial difficulty and £0.5m has been

estimated as the deficit funding required in 2021/22 for the Riviera International Conference Centre and Clennon Valley.

28. In March 2020, under the “Everyone In” initiative, we accommodated an extra 140 clients, ensuring that all those homeless and sleeping rough in Torbay have been housed throughout the pandemic. Consequently, there is a forecast net increase in costs (after Housing Benefit) of £1m. We are in the process of seeking to accommodate these clients in permanent rented accommodation. However, the economic impact of Covid-19, is likely to lead to a continued increase in the number of homeless people requiring support in 2021/22. This impact has been forecast at level similar to 2020/21 at £0.750m.

29. We are responsible for providing home to school transport for pupils that are eligible for support. COVID-19 has had an impact of travel arrangements for these children which has increased costs. An additional cost of £0.2m has been estimated for 2021/22.

30. There has been a reduction in income for a number of our services due to the impact of “lockdown”. Some income reductions are likely to be temporary, however the “new normal” for some of these income streams, particularly those linked to people’s behaviour and household income, could be at a lower level than historic levels. In particular car park income could continue to be impacted. This impact has been estimated at £0.5m for 2021/22.

31. We receive an income from properties that we own for regeneration or investment purposes (such as Fleet Walk, Wren Park and the shop units in Tor Hill House). While any rental shortfall on our investment properties and Fleet Walk would initially be met from the relevant earmarked reserves there is likely to be an overall impact on rental income. Therefore a contingency of £0.5m for rent income losses has been included.

Capital Plan 2021/22

32. As required by the Council’s Constitution, the draft Capital Plan for 2021/22 has been published which is line with the latest budget monitoring report. As the Council has a rolling four year Capital Plan that is reported quarterly, the Capital Plan for 2021/22 is a “sub set” of the four year plan based on the latest monitoring information.

Spending Round 2020 and Local Government Finance Settlement 2021/22

33. The Chancellor cancelled the Autumn 2020 budget and three year Spending Review as a result of the financial uncertainty arising from the economic impact of COVID-19 and instead issued a one year Spending Round. The resulting Provisional Local Government Finance Settlement which outlines funding allocations for individual Councils was announced on the 17 December 2020.

34. The 2021/22 provisional settlement is fundamentally a one year “roll over” from 2020/21. The Council’s core funding was either frozen at 2020/21 levels or was increased by 0.5% for inflation. Service grants in 2020/21 were also rolled over into 2021/22. Some of these grants such as IBCF were kept at 2020/21 values, while others such as Housing grants and the social care grant were increased. The 2021/22 Public Health grant allocations have not yet been announced.

35. As expected the referendum limit for council tax rises was set at 2%. However the main change in core funding was the flexibility for Councils to raise council tax by a further 3% specifically for adult social care. This 3% rise for Adult Social Care could be spread over 2 financial years. These council tax increases are “assumed” as part of the increase in councils’ “core spending power” often quoted by MHCLG.

36. The Social Care grant was also increased year on year by £1.4m. This additional funding will be allocated between childrens and adult social care for prioritised investment to reduce future costs and/or prevention activity.

37. In addition the announcements around “core” funding MHCLG announced a number of one off grants to recognise the ongoing financial impact of COVID-19 in 2021/22. The additional funding included a tranche of COVID-19 funding of £4.1m and £1.8m to recognise the impact of the financial impact of COVID-19 on council taxbase and collection rates. Both of these are one off grants and should be considered in relation to the additional COVID-19 related costs recognised within the 2021/22 budget.

38. The 75% sales, fees and charges income loss compensation scheme (over a threshold limit of 5%) was extended to the end of June 2021 with the income baseline being the 2020/21 income budgets. At this stage no estimate has been included for the value of this grant as it will be directly related to income losses. In addition a grant to recognise irrecoverable losses in 2020/21 for council tax and NNDR has been introduced. The definition of this funding is quite tight, with only irrecoverable losses on the taxbase being included, rather than losses in actual collection of those taxes. It is expected that any funding from this grant will need to be recognised as income in 2020/21.

Formula Funding and Business Rates Consultations 2020/21 (now 2022/23 at the earliest)

39. MHCLG’s aim of implementing a new funding formula and a revised business rates retention system (both last updated in 2013) has now been delayed for a second year to 2022/23 at the earliest. However in reality progress to a new funding formula has not significantly advanced since the two consultation documents issued in December 2018. There is therefore still significant uncertainly around the Council’s funding for 2022/23 onwards.

40. Key elements of the consultation were:

- NNDR Retention Scheme: MHCLG intend to introduce a 75% NNDR retention scheme for all Councils. The consultation sought views on the design of the scheme and how and when any NNDR growth is redistributed between Councils to keep the link between funding and need while retaining an incentive for growth. In addition the consultation suggested that NNDR baselines are changed on an annual basis to ensure councils are not disadvantaged by the impact of appeals.

- New funding formula to allocate new funding baselines and income baselines to all councils. The aim was to have as simplified a formula as possible that focusses on a limited number of key cost drivers. The consultation proposed an eight block formula then adjusted for general factors to reflect labour costs, rates costs and sparsity.

- There are seven specific formulas for major services – adults social care, children's' social care, highways, public health, legacy capital costs, fire and flood defence. All other services will form part of a "Foundation" block where it is proposed that this formula will be based on total population.

41. This proposal, although meeting the criteria of being transparent and simple, does not take into account other place based factors that can influence costs and demand such as deprivation and coastal town issues. Also some services included in the Foundation block such as concessionary fares, home to school transport and housing/homelessness are clearly not linked to total population.

42. The Council responded to this consultation and liaised with the LGA and other "influencers" to ensure the formula is reflective of the issues Torbay faces. As part of this process the Council's Chief Executive and Head of Finance in 2019 had a meeting with the then Local Government Minister, Rishi Sunak and Kevin Foster MP.

Dedicated Schools Grant

43. As part of the Spending Round additional funding was announced for the Dedicated Schools Grant – for both schools and higher needs. Torbay's 2021/22 allocation of these additional funds was provisionally allocated in December 2020 with an overall increase of over 8% in the schools block. However of the headline increase, 4.7% of the increase is due to the transfer into this allocation of a grant for Teachers Pay and Pensions. Within the average overall increase, individual schools will receive more or less depending on the impact of the changes in the formula and pupil numbers to their allocations.

44. The Council will, as usual, direct the entire grant received in respect of Dedicated Schools Funding through to those areas defined in the School Finance Regulations. The estimated value of the Dedicated Schools Grant (DSG) before academy school recoupment is £119m. For 2021/22 it is estimated that approximately £44m will be retained in the Council's budget for expenditure related to its (maintained) schools and other residual functions including education for Higher Needs.

45. The DSG and the schools funding formula is expected to change with full introduction of a new national (simplified minimum per pupil) school funding formula, however there has been no confirmation of when this change will be made. Movement of funding between these blocks is now limited and is expected to cease altogether for the schools block with the introduction of the national school funding formula.

46. The key financial pressure within the DSG is in the Higher Needs block. The pressures on the Higher Needs block arise from the level of demand and referrals from schools for support to pupils. In recognition of this pressure Schools Forum for 2021/22 helpfully agreed (again) to move 0.5% of the school block to the higher needs block which was subsequently approved by DfE. However the over spend on the block in 2020/21 is estimated to be £2.6m resulting in a cumulative forecast deficit of £6.4m, which under regulations needs to be "made good" in future years from the Dedicated School Grant allocations.

47. As recognition of the national issues in the Higher Needs block, the Spending Round has allocated more funding to support Higher Needs pressures. For 2021/22 the estimated increase in funding is £1.9m of which £0.4m relates to the transfer of the Teachers Pay and Pensions Grant. Although clearly welcome the additional funding for Torbay it is expected that a deficit budget will need to be set for 2021/22 of £2.5m. The expectation is that there will be additional funding in 2022/23 which should enable the budget should move closer to balance.

48. This rising deficit is a key issue for the Council and the schools community. At this stage a balanced budget is still not forecast or currently achievable therefore the deficit will continue to rise. The level of the deficit as at end of March 2021 is higher than the Council's general fund reserve.

49. Until the higher needs block achieves financial balance in the longer term, the DSG reserve will be used to fund the cumulative deficit as a "negative reserve". However holding a negative reserve is not either a recommended or a sustainable solution.

Adult Social Care

50. The Council's budget proposals for 2021/22 includes the contract sum agreed with the ICO and CCG to continue the highly regarded system of integrated health and adult social care within Torbay. This is the second year of a three year arrangement supported by a focussed cost improvement plan for adult social care. The contract value for 2021/22 is £45 million plus £2m held as a specific contract contingency.

51. The contract sum includes Council adult social care funding including Better Care Fund, Improved Better Care fund, Winter Pressures grant and funding from the Adult Social Care council tax precepts before 2020/21.

52. Any additional funds raised by the 2021/22 Council tax precept of 3% (approx. £2.1m) will be earmarked for adult social care. It is proposed that the Council allocate 50% of this precept to recognise the rising adult social care cost pressures in the ICO.

Children's Services

53. As Council is aware an additional £7m was added to the children's social care budget in 2020/21 to re base the budget to reflect demand levels allowing for a contingency for demand. In addition £2m was allocated to the service to enable investment in

areas to enable service improvements. Areas for investment included SEND, senior management capacity, commissioning, procurement, recruitment and retention, social work academy, and investment in fostering in particular for carers who look after children with complex needs.

54. As a result of these investments and improvements within the service itself, the latest forecast of spend in 2020/21 is below budgeted levels. Therefore the 2021/22 budget has been reset at a level that reflects the lower levels of cost allowing a contingency for higher numbers of looked after children.

SWISCo

55. The budget proposals include an inflationary increase for SWISCo. At this stage no future savings have been assumed until the financial position of SWISCo stabilises after the transfer of the operation from TOR2 and impact of COVID-19 on its operation and income. £0.5m will be allocated to SWISCo to support their financial position via the CSR Reserve funded from the 2020/21 outturn position. The emerging Waste Strategy is expected to have a future impact. Further council teams transferred into SWISCo in November 2020 to provide greater integration of services and generate service efficiencies.

Investment Fund

56. Full Council in July 2019 approved an increase in the Investment Fund to £300m. By the end of 2019/20 £235m had been spent with an estimated surplus, after borrowing costs and contingency for future years, on these properties of £4.3m in 2021/22. In November 2020 HM Treasury responded to the consultation of the use of PWLB borrowing to fund “debt for yield” which confirmed the effective prohibition on the use of borrowing to fund “debt for yield” properties. As a result the remaining budget allocation has been deleted from the Capital Plan. Linked to economic uncertainty due to COVID-19 the income from these properties, the level of the Investment Fund Reserve and the asset values will be kept under review. A contingency of £0.5m has been included in the 2021/22 budget for the impact of the economic uncertainty on all Council rental income.

Estimation of Council Tax Surplus/Deficit

57. The Council makes an estimate of the surplus or deficit on the Collection Fund at year end from under or over achieving the estimated council tax collection rate which will be set in January 2021. This would usually be a surplus figure of approximately £1.7m.

58. COVID-19 has had a significant impact on the collection of council tax in 2020/21, both on tax due in 2020/21 and tax outstanding from previous years. Of the total deficit the Council will recognise a defcit in 2021/22 of £1.7m.

59. It has been confirmed that the Council is only able to spread any “exceptional” collection fund deficit (from both council tax and NNDR) arising in 2020/21 from

2020/21 bills over three years starting 2021/22. As a result any deficit from prior year debt will still be recognised in 2021/22.

60. The Council, based on its 2020/21 forecast outturn intends to allocate funds to an earmarked reserve that will help to negate the impact of the collection fund deficit carried forward over the three years from 2021/22.

61. 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. Historically the Council has assumed a 96% in year collection rate however Council has reduced that by 1% to 95% for 2021/22 with a value equivalent to further 1% held in contingency for potential losses in 2021/22.

62. Linked to the financial health of the population the number of claims for Council Tax Support have increased in the first quarter of 2020/21 and are expected to rise further after the furlough scheme ends in its current form. As a result the costs of the Council Tax Support Scheme has increased which then reduces the total income from Council tax in 2021/22 as reflected in the taxbase approved by Council in December 2020.

63. As a local precepting authority, as defined in the Local Government Finance Act 2012, Brixham Town Council will not be required to fund any deficit nor will they be entitled to a share of any surplus on the collection fund.

National Non-Domestic Rates

64. The Council’s NNDR income in 2021/22 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 set in 2013).

65. Since the introduction of the Business Rates Retention Scheme in April 2013, the Council is also required to declare a surplus or deficit for NNDR in a similar way as set out above for council tax. The forecasting of NNDR has involved a wide range of complex variables and influences and is an area which causes complications for medium term financial planning. As outlined above the “exceptional” shortfall on NNDR collection from 2020/21 will be recovered over three years from 2021/22, however due to the 100% retail, leisure and hospitality relief offered by MHCLG in 2020/21 the value is not significant.

66. However with the economic uncertainty likely to negatively impact the collection rates from COVID, the collection rate for NNDR in 2021/22 has been assumed to be 5% lower than 2019/20.

67. MHCLG have delayed the implementation of a revised NNDR retention scheme to at least 2022/23 and have also now confirmed that a "reset" of NNDR baselines to reflect growth since 2013 has also been delayed.

68. The Council along with other Devon Councils will continue with a NNDR pool for 2021/22.

Council Tax and Referendum Limits

69. 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 was set again at 2% or over for 2021/22. The Partnership's budget proposal is for a 1.99% increase in this element. In addition MHCLG have offered Councils the flexibility to increase council tax by a further 3% for Adult Social care and the budget proposals include an additional 3% for this specific purpose.

70. Council will be aware that the Council Tax bill sent out to residents is made up of three main component parts, namely Torbay Council (including Brixham Town Council), Devon and Cornwall Police Authority and Devon and Somerset Fire and Rescue Authority. Once these have been declared they will be included in the Council Tax setting report which will be presented to the Council at the end of February 2021.

71. The Secretary of State will consider the three component parts, not the overall bill, and, if any one of the three organisations were capped, the Council would have to re-bill.

72. In 2020/21, Torbay had the lowest Band D Council Tax in Devon at £1,872.89 including the Fire and Police precepts, but excluding parish and town council precepts. A summary of some other Devon Councils' Band D rates are as follows:

	Torbay (Unitary council)	Plymouth (Unitary council)	Exeter (City Council)	South Hams (District Council)	Teignbridge (District Council)
District Council	-	-	160.05	170.42	175.17
Devon County	-	-	1,439.46	1,439.46	1,439.46
Total	**1,563.01**	1,574.77	1,599.51	1,609.88	1,614.63
Fire & Police	309.88	309.88	309.88	309.88	309.88
Band D (excluding parish precepts)	**1,872.89**	1,884.65 +0.6%	1,909.39 +1.9%	1,919.76 +2.5%	1,924.51 +2.8%

73. The differential between Torbay and the other Councils increases when Town and parish precepts are added. As a guide the 2020/21 precept for Brixham Town Council was £56.70.

Pay and Pensions

74. The 2021/22 pay award for staff has not yet been agreed. Based on the Chancellor's statement about restraints in public sector pay rises, the budget proposals include an allocation for a pay award of 0% in services while a contingency is held if the pay award is higher along with any impact of the living wage and/or increases on lower grades over the "headline" award. The pay award for 2020/21 was agreed in September 2020 at 2.75%.

75. In 2019 there was the triennial valuation of the Devon County Pension Fund to ensure that employer contribution rates are set for the following three financial years to meet the long term employee pension benefits requirements. This from 2020/21, for three years, resulted in an increase in Torbay's "primary" rate to 16.7% (from 14.8%), this increase was however been more than offset by a significant reduction in the Council's "secondary" rate (i.e. deficit) lump sum payment.

Reserve Levels

76. The Council's general fund reserve of £4.6m as at the end 2019/20 is low compared to both the Council's overall expenditure and also in comparison to other Councils. The partnership are supportive of increasing this balance to a level that is equal to 5% of the Councils net budget. For 2021/22 this would require a target balance of £5.8m. By utilising a proportion of the expected 2020/21 revenue underspend this target level should be reached in 2021/22.

77. By achieving a general fund level of 5% is prudent for the Council and this will be the first time in a long period this level has been achieved. As a guide in 2004/05 the level was 2%, in 2010/11 level was 3% and in 2019/20 the level was 4%.

78. The 2021/22 budget proposals do not include any use of any earmarked reserves to achieve a balance, with the exception of the earmarked reserve to fund the three year impact of the collection fund deficit.

79. The Council continues to have the option, in order to give reserve levels a “boost”, to swop revenue and reserve funded capital expenditure for prudential borrowing to up to £3m which will need to be funded from future revenue budgets. At this stage this option is not being proposed.

CIPFA Financial Resilience Index

80. To provide more information and transparency on Councils’ financial position, in particular after the issues in Northamptonshire County Council, CIPFA issued a “Financial Resilience Index” to provide information.

81. The Index shows the assessment (based on 2018/19 data) of Torbay’s position is that the “Indicators of Financial Stress” rank Torbay as a “higher risk” Council but not at the highest level. Factors that show a higher risk assessment are in relation to children’s’ social care where the council’s share of its budget on this service is high and it has an inadequate OFSTED judgement. Other factors showing a higher level of risk are the overall level of reserves compared to budget. Conversely lower risk is reflected by no reduction in the level of general (unallocated) reserves.

82. It is important that both Members and the Council’s senior leadership team continue to challenge and have oversight of the Council’s financial position. As evidenced recently by Croydon Council such challenge and oversight in a council’s financial position is vital.

Longer Term Future Council Funding

83. The Medium Term Resource Plan was updated at the end of October 2020 to include the impact of COVID-19 and the delays in the implementation of the new funding formula and revised NNDR retention system. The three year 2020 Spending Review was delayed which gives continuing further uncertainty.

84. As an initial guide, prior to more detailed work being undertaken post 2021/22 budget setting, it is estimated that between 2021/22 and 2023/24 the Council will require in the region of over £16m of reductions to achieve a balanced budget. The Council’s three year agreement with the ICO for adult social care will need to be renegotiated for 2023/24 and there will be a pension revaluation which will be implemented from 2023/24 where assets values may have been impacted by COVID-19.

85. The next Plan will need to include the removal from the Council’s 2022/23 budget of approx. £6m of one off central government support for the impact of COVID-19, conversely the Council will need to work towards the reduction and/or mitigation of the approximate £8m impact of COVID-19 on its budgets for 2022/23.

86. The aim of the possible changes to funding formula and the NNDR retention system is that Councils will not have any central government “core” funding with the Councils funded from council tax and NNDR. Councils therefore have a clear incentive that to secure funding for services in the future, there has to be increases in both its council tax base (housing) and NNDR (business). It must be noted that MHCLG are still intending to control Council spend by the retention in the system of both funding baselines and income baselines. This is not only to control total funding therefore enabling overall funding reductions by changing tariff and top up grants, but also to enable total funding to be redistributed on need.

87. 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 of a Council’s direct control.