

# Chief Finance Officer's Report

20 October 2020

## 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 draft Budget Proposals 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 draft budget and raises issues for future financial years.

## Budget Overview

3. These draft budget proposals are presented in the light of considerable financial uncertainty.
4. The ongoing financial impact of COVID-19 and the ongoing financial impact from the pandemic is having 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 summary. Clearly the financial impact on 2021/22 and future years can only be estimated at this stage and officers will continue to update estimates and will continue to aim to mitigate any financial impacts.
5. Secondly as at October 2020, the Council has no clear indications of its funding settlement for 2021/22 which is linked to the very difficult national funding position. The Chancellor has cancelled the autumn 2020 budget, however the Treasury will have to make funding allocations to government departments for 2021/22 at some point. The Chancellor did previously set out total expenditure limits for the public sector which were for an above inflation increase, but that was set before COVID-19. The Treasury have continued with the Spending Review 2020 process which will outline expenditure priorities over the next four years.
6. On 12 October 2020 an additional £1 billion of funding was announced for local government COVID pressures. The allocation of this has not yet been announced. It is recommended that this funding is allocated to an earmarked reserve to be used to support on-going COVID related financial pressures.
7. 2019/20 was the final year of a four year funding settlement. The, one year only, 2020/21 Spending Round announced by the Chancellor in September 2019 was different compared to previous settlements and the Budget in March 2019. The modest increase in local government funding compared to the reductions in previous years was welcome. However as context Torbay's Revenue Support Grant has reduced from £42m in 2013/14 to £6m in 2019/20.
8. It is expected that for 2021/22 there will again be a one year only "roll over" settlement, therefore there is still considerable funding uncertainty from 2022/23 onwards. In addition MHCLG has, for a second year, delayed the introduction of a new funding formula and a revised NNDR system by a year to April 2022 at the earliest.

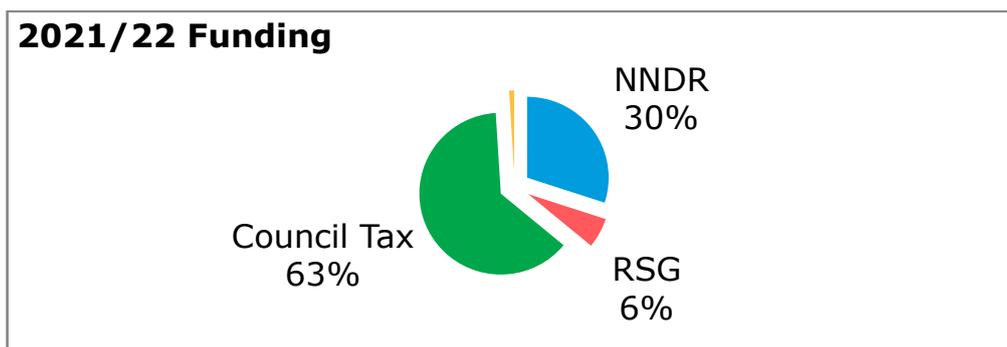
9. The Council's financial planning for 2021/22 started in March 2020 and the Partnership's provisional budget proposals are published on 20 October 2020 enabling a period for consultation and scrutiny of the proposals. To achieve a balanced budget, the proposals for 2021/22 have required a range of reductions and income generation and a number of difficult choices for the Council.
10. The Council has received funding in 2020/21 to support some of the costs the Council has incurred in relation to COVID-19 and a 75% service income loss compensation grant. The Council will be allowed to carry forward any 2020/21 collection fund losses to be funded over the following three financial years, although the guidance on this has not yet been issued. Whilst the position is challenging, the Council is not expecting to be in such financial difficulty that the Chief Financial Officer would be in a position where a section 114 notice (that gives members a "financial warning") would need to be issued.
11. The Partnership's draft 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. To support the difficult budget challenges facing the Council it is proposed by the Partnership that the Council increases its Council Tax requirement by an inflationary 1.99%.
13. There is no assumption that Councils in 2021/22 will be given the flexibility to raise Council tax for Adult Social Care by 2% in 2021/22.
14. The Partnership's budget proposals are available as part of the draft budget.
15. Members of the Overview and Scrutiny Board (through the Priorities and Resources Review Panel) will examine the proposals in detail and stakeholders and residents will have the opportunity to make representations on the proposals through the consultation. The Partnership will review all of the responses received and the final budget proposals will be drawn up after consideration of the responses.
16. This report supports the Draft 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)
17. Also relevant are:
  - e. Medium Term Resource Plan (on website)

- f. Corporate Asset Management Plan
- g. 2020/21 Revenue and Capital Budget Monitoring Report

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

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

	<b>2021/22</b>	
	£'000	£'000
<b>Partnership's Draft Budget Proposal:</b>		
Net Revenue Expenditure	115.8	
Total Net Revenue Expenditure		<b>115.8</b>
<b>Funded By:</b>		
Business Rate Retention Scheme	33.9	
Revenue Support Grant	6.5	
New Homes Bonus Grant	0.7	41.1
Council Tax Requirement	72.1	
Collection Fund Surplus/Deficit	0	72.1
Total Income		<b>113.2</b>



A summary of the movements from the Council's 2020/21 budgeted expenditure to the current £2.6m "gap" is as follows.

	£m	£m
	Net Spend	Funding
Net Revenue Expenditure 2020/21	115.9	(115.9)
<b>Changes for 2021/22</b>		
COVID 19 financial impact	2.7	5.0
Service Inflation	1.9	0
Known Service pressures	1.0	0
Funding *Council Tax & NNDR)	0	(2.2)
Housing and bus subsidy	0.4	0
Savings & Known Changes	(6.1)	(0.1)
Net Revenue Expenditure 2021/22	115.8	(113.2)
Gap as at October 2020	2.6	

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

<b>Directorate/Service</b>	<b>Expenditure £000s</b>	<b>Income £000s</b>	<b>Net £000s</b>
Adult Services	53.1	(14.1)	39.0
Children's Services	100.5	(55.1)	45.4
<i>Dedicated Schools Grant included in Children's Services. 2019/20 allocation to be announced</i>	42.0	(42.0)	0
Public Health	11.7	(1.3)	10.4
<b>Sub Total – Joint Commissioning Team</b>	<b>165.3</b>	<b>(70.5)</b>	<b>94.8</b>
<u>Corporate Services</u>			
Community Services	5.5	(3.9)	1.6
Corporate Services	8.7	(3.2)	5.5
Customer Services	46.4	(43.0)	3.4
<i>Housing benefit included in Customer Services</i>	40.3	(40.3)	0
<b>Sub Total - Corporate Services</b>	<b>60.6</b>	<b>(50.1)</b>	<b>10.5</b>
<u>Finance</u>	29.3	(31.8)	(2.5)
<u>Place</u>			
Business Services and Regeneration and Assets	29.4	(18.8)	10.6
Investment Properties	9.5	(14.1)	(4.6)
Planning and Transport	9.4	(2.4)	7.0
<b>Sub Total -Place</b>	<b>48.2</b>	<b>(35.2)</b>	<b>13.0</b>
<b>TOTAL</b>	<b>303.4</b>	<b>(187.6)</b>	<b>115.8</b>
<b>Sources of Funding</b>			
Council Tax			72.1
Collection Fund Surplus			0
Revenue Support Grant			6.5
Business Rates (NNDR)			33.9
New Homes Bonus Grant			0.7
<b>TOTAL</b>			<b>113.2</b>
<b>Shortfall – as at October 2020</b>			<b>2.6</b>

## Capital Plan 2021/22

21. As required by the Council's Constitution, the draft Capital Plan for 2021/22 has been published which is in 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

22. In July 2020 the Chancellor announced a four year Spending Review with responses by September 2020 which will allocate departmental allocations and a number of service specific national allocations. Torbay's actual funding allocation for 2021/22 will be confirmed in the provisional Local Government Finance Settlement which is expected in December 2020.
23. The Chancellor has cancelled the expected autumn 2020 budget linked to financial uncertainty arising from the economic impact of COVID however there will need to be funding allocations to departmental budgets.

## Formula Funding and Business Rates Consultations 2020/21 (now 2022/23)

24. 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 advanced since the two consultation documents issued in December 2018. There is therefore still significant uncertainty around the Council's funding for 2022/23 onwards.
25. Key elements of the consultation were:
  - NNDR Retention Scheme: From 2020/21, (now 2022/23), 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 from 2020/21 (now 2022/23). 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.

26. 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.
27. 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

28. 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 will be confirmed in the autumn 2020 but an overall increase of over 8% in the schools block is expected. However of the headline 8.6% 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.
29. 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 £111m. For 2021/22 it is estimated that approximately £42m will be retained in the Council’s budget for expenditure related to its (maintained) schools and other residual functions.
30. 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 the year of the change. 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.
31. 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 2020/21 helpfully agreed 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 £2.1m resulting in a cumulative forecast deficit of £5.8m, which under regulations needs to be “made good” in future years from the Dedicated School Grant allocations.
32. 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 £2m of which £0.4m relates to the transfer of the Teachers Pay and Pensions Grant. Although clearly welcome the estimated

additional funding for Torbay will be less than the current forecast deficit in 2021/22 therefore although the annual deficit will reduce it is likely a deficit budget will need to be set for 2021/22. The expectation is that there will be additional funding in 2022/23 which should enable the budget should move to balance in 2022/23. At that point the DSG can be used to fund the accumulated deficit over the medium term.

33. 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

34. The Council’s budget proposals for 2021/22 includes the proposed 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.
35. 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.
36. Any additional funds raised by the 2021/22 Council tax precept of 2% (approx. £1.4m) will be earmarked for adult social care.

## Children’s Services

37. As members are 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 invest in areas to enable service improvements. Areas for investment included SEND, senior management capacity, commissioning, procurement, recruitment and retention, social work academy, investment in fostering in particular for carers who look after children with complex needs.
38. 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 can reset at a level that reflects the lower levels of cost.

## SWISCo

39. The draft budget proposals include an estimated £0.6m from the implementation of the Waste Strategy and other operational SWISCo efficiencies. Linked to this is the agreed transfer of further council teams into SWISCo in November 2020 to provide greater integration of services and generate service efficiencies.

## Investment Fund

40. Council in July 2019 approved an increase in the Investment Fund to £300m. To date £235m has been spent with an estimated surplus, after borrowing costs and contingency for future years, on these properties of £4.6m in 2021/22. Pending the conclusion of the March HM Treasury consultation of the use of PWLB borrowing to fund “debt for yield” the Council’s further purchases have been paused. Linked to economic uncertainty linked 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

41. 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 2020. This would usually be a surplus figure of approximately £1.7m. However as the Council is able to spread any collection fund deficit (from both council tax and NNDR) from 2020/21 over three years starting 2021/22, the collection fund position has assumed to be nil. It must be noted that as of October 2020 the technical guidance on the accounting for this “spread” has not been issued which may impact on the final budget for 2021/22.
42. 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 and will assume that collection rate again for 2021/22. However with the economic uncertainty likely to negatively impact the longer term collection rates from COVID, the longer term impact on collection rate has been assumed to be 2% lower. This shortfall will need to be reflected in the collection fund surplus/deficit.
43. 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 this winter after the furlough scheme ends in its current form. As a result the costs of the Council Tax Support Scheme has been increased which then reduces the total income from Council tax in 2021/22.
44. As a local precepting authority, as defined in the Local Government Finance Act 2012, Brixham Town Council (or any new Town Council) will not be entitled to a share of any surplus or deficit on the collection fund.

## National Non-Domestic Rates

45. 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).

46. 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 has caused further complications for medium term financial planning. As outlined above the shortfall on NNDR collection from 2020/21 will be recovered over three years from 2021/22.
47. 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.
48. Although the MHCLG have delayed the implementation of a revised NNDR retention scheme to at least 2022/23, the possibility of a "reset" of NNDR baselines to reflect growth since 2013 has not yet also been delayed. It is unlikely that MHCLG have the time to consult and action a reset for April 2021, however if it does this will directly impact on the viability and therefore the budgeted income from the Devon wide NNDR pool.

## Council Tax and Referendum Limits

49. 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 at 2% or over for 2020/21. The Partnership's draft budget proposal is for a 1.99% increase in this element. No assumptions about another precept for adult social care has been made.
50. Readers 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 including in the Council Tax setting report which will be presented to the Council at the end of February 2021.
51. 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.

52. 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
<b>Total</b>	<b>1,563.01</b>	1,574.77	1,599.51	1,609.88	1,614.63
Fire & Police	309.88	309.88	309.88	309.88	309.88
<b>Band D (excluding parish precepts)</b>	<b>1,872.89</b>	1,884.65 +0.6%	1,909.39 +1.9%	1,919.76 +2.5%	1,924.51 +2.8%

53. 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

54. The 2021/22 pay award for staff has not yet been agreed. The budget proposals include an allocation for a pay award of 2% in services while a 1% 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. Pay award for 2020/21 was agreed in September 2020 at 2.75%.
55. 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 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

56. The Council's forecast general fund reserve of £4.6m is low compared to both the Council's overall expenditure and also in comparison to other Councils.
57. The 2021/22 budget proposals include, at this stage, a possible use of earmarked reserves to meet the current £2.6m gap which is caused, in part, by the COVID-19 related economic conditions of which some may be short term. The Council also has 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 but will be considered if this one off option is required to deliver a robust budget for 2021/22.

## CIPFA Financial Resilience Index

58. 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.
59. The Index shows the assessment (based on 2018/19 data) of Torbay's position is that the "Indicators of Financial Stress" will 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.

## Longer Term Future Council Funding

60. 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. Currently the 2020 Spending Review is still ongoing which gives continuing further uncertainty.
61. As an initial guide, prior to more detailed work being undertaken post 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 will be implemented from 2023/24 where assets values may have been impacted by COVID-19.
62. The aim of the possible changes to funding formula and the NNDR retention system 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.
63. 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, as has been clearly highlighted by the economic impact of COVID-19 on NNDR collection rates.