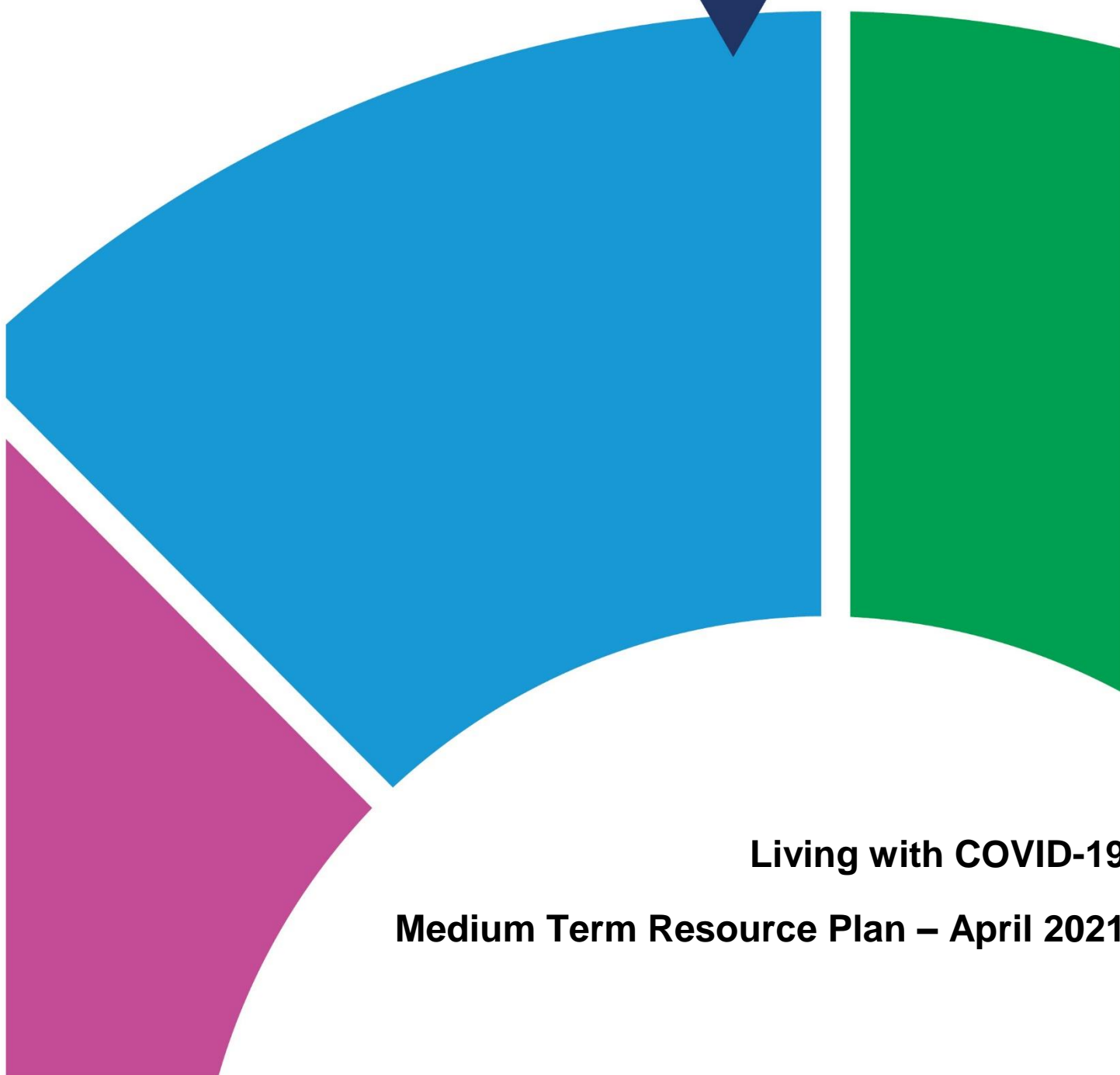


Budget 2020/21



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1. Summary

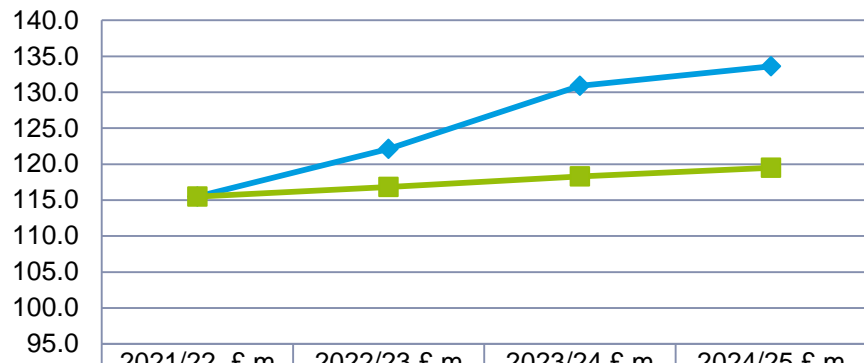
The table below summarises the estimated income and expenditure pressures faced by Torbay Council and the estimated funding gap for the period of the Plan now incorporating the Council's 2021/22 budget. This takes account of the income and expenditure pressures arising from the assumptions which are detailed within this Plan.

Revenue Budget	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Estimated Sources of Finance (Revenue Support Grant, National Non-Domestic Rates, Council Tax & Collection Fund)	(118.7)	(119.8)	(120.0)	(120.7)
One off COVID Grant	(1.8)	0	0	0
Less impact of COVID 19	5.0	3.0	1.7	1.2
Sources of Finance	(115.5)	(116.8)	(118.3)	(119.5)
Net Expenditure budget				
Net expenditure base budget brought forward	115.9	115.5	116.8	118.3
In year movements e.g., known changes and service investments	5.1	1.2	1.6	1.0
Changes in Service Specific Grants and Income	(1.5)	0	0.9	0
Inflation and pay award	1.3	2.0	2.0	2.0
Children's Services	0	0	0	0
Adult Social Care	2.1	0	5.0	0
Impact of COVID 19 on budget	2.7	(0.7)	(0.7)	(0.3)
One off COVID Grants	(4.1)	4.1	0	0
Budget Savings, Proposals & Transformation	(6.0)	0	0	0
Total Net Expenditure budget	115.5	122.1	125.6	121.0
Additional Savings required <u>in year</u> to balance budget	0	(5.3)	(7.3)	(1.5)
Total Net expenditure budget after savings	115.5	116.8	118.3	119.5
Savings required – Cumulative position:	0	(5.3)	(12.6)	(14.1)

Table last updated 30 March 2021

Overall Funding Summary

Millions £



	2021/22 £ m	2022/23 £ m	2023/24 £ m	2024/25 £ m
Expenditure excluding all savings for the period of the Plan	115.5	122.1	130.9	133.6
Income	115.5	116.8	118.3	119.5

2. Overview

The Medium-Term Resource Plan (MTRP) is a key financial planning document and supports the Council in ensuring it can plan effectively for the use of resources in the medium term. This Plan sets out the resource projections for the next three years and the financial challenges. The issues highlighted within this Plan will need to be considered as the Council delivers its Community and Corporate Plan.

It is now estimated that the Council will have to close an **estimated budget gap of £14.1m over the three years** between 2022/23 and 2024/25, which is based upon existing service demands and “normal” budget pressures including inflation, demand pressures and income assumptions. The Council’s Senior Leadership Team will work with the Cabinet to identify options for proposing a balanced budget over this period. These reductions must be set in context of the Council “living with COVID” and its ongoing impact on the local economy and our residents.

This Plan summarises the expected income and expenditure position over the next three years. It identifies the size of the funding “gap” without identifying any potential options to close the same. The Senior Leadership Team are currently working with the Cabinet to develop specific proposals for 2022/23, as well as developing longer terms proposals for the rest of the plan period. These will be published in October 2021, and thereafter every version of this plan will not only identify the gap but will on a ‘rolling’ basis identify the solutions and options to balancing the budget over the subsequent three years.

The global pandemic COVID-19 has had a fundamental impact on the community of Torbay from the health impact of the virus itself to the significant impact of the lockdown on both the community’s behaviour and the impact on the local economy. This will have an ongoing impact on the Council’s budget and the Plan as presented assumes a residual impact of COVID at the end of the period of over £2m per annum.

The Council’s Capital Plan, Capital Strategy, Asset Management Plan and the Treasury Management Strategy are other key financial planning documents and should be read in conjunction with this Plan. These documents are available on the Council’s website at www.torbay.gov.uk/budget

The **Local Government Finance Settlement** for 2021/22 was finalised in January 2021. For a second year it was based on a one year only Spending Round Settlement, that contained a confirmation of no reduction in local government funding, an inflationary rise in National Non-Domestic Rates (NNDR) and Council Tax, additional grant funding for social care and the continuation of grants received in 2020/21 for one more year.


In March 2021 HM Treasury announced that there would be a **Spending Review in autumn 2021** for the following financial years. At this stage it is unclear what the impact on funding for local government will be given the massive national spend required to mitigate the impact of COVID-19. The IFS analysis of the Budget 2021 has estimated **that unprotected government departments could face a reduction in funding of 8% in 2022/23.**

Linked to COVID-19, the review of funding allocations between councils and the impact of the proposed NNDR retention system has now been delayed again to be introduced in 2022/23 at the earliest. The Council has several specific grants where there are no announcements for 2022/23 yet; these include the Improved Better Care Fund (IBCF), Troubled Families Grant and Flexible Housing Grant. The lack of confirmation of grants beyond 2021/22 and the unknown impact of the Spending Review 2021 leads to an incredibly uncertain period for local government finances.

In summary, the future funding uncertainties include:

- The impact on total local government spending from the Spending Review 2021. Due to the ongoing and challenging fiscal position for central government, there could be a target to reduce total spending in local government going forward.
- Linked to the above, the ongoing impact of COVID-19 and its fundamental effect on both the local and national economy.
- The intention of the Ministry of Housing, Communities and Local Government (MHCLG) to introduce a new funding formula for the allocation of resources between councils, although this is now delayed again to start in 2022/23 at the earliest. If Torbay Council's relative "need" has reduced since the last review compared to other councils then the Council is likely to lose funding. Transitional protections for councils from changes has yet to be confirmed. It is assumed that Torbay Council will see a reduction in funding linked to the Council's population growing slower than the national average, but that any reductions will be phased in.
- Any changes to adult social care funding from the Improved Better Care Fund. It is unclear how this will be allocated, if at all, from 2022/23. In addition, any fundamental changes in the national organisation and funding of Adult Social Care and Health are also an unknown;
- The method of restating councils' funding on the move to 75% NNDR retention in 2022/23 (at the earliest). How the baseline for the change will be set and calculated is subject to consultation, and the impact is therefore uncertain.
- Impact of future national changes to NNDR upon Council income, such as changing reliefs or even a fundamental review of the NNDR system.
- The risk to Council NNDR income from the volume and value of NNDR appeals and the future income levels which are dependent on economic conditions and the strength of the high street against the rise of online shopping and now the impact of COVID-19.
- No funding announcements have been made for 2022/23 onwards for several service grants, such as Troubled Families and Flexible Housing Grant. The Adult Social Care grant has not been confirmed but it is expected to continue at least at its current level.
- No funding announcement or details have been made of a replacement system announced for New Homes Bonus Grant.
- No announcements have been made on the levels set for Council Tax rises to be subject to a referendum.

Given the above, the projected funding gap could be significantly impacted by several changes to key "factors":

Key “Factors” for 2022/23	Impact of change		
	Best case £m		Worse case £m
change in financial impact of COVID-19	(£8m)	£0m	£8m
change in children social care spend	(£2m)	£0m	£4m
change in adult social care spend	(£0m)	£0m	£0m
change in local government funding	(£3m)	£0m	£3m
change in Council’s funding formula	(£4m)	£0m	£4m
change to Council Tax referendum limit	(£0.7m)	£0m	£1.4m
Removal of Adult Social Care Grant	£0m	£0m	£7m
Removal of Improved Better Care Fund	£0m	£0m	£8m

Historically councils can raise Council Tax by 1.99%, with rises of 2% or over being the subject of a local referendum. In addition, councils like Torbay with social care responsibilities, in some years were permitted to raise Council Tax specifically for social care. Torbay Council approved 2% for such purposes in 2020/21. For 2021/22 an additional 3 % was permitted, which was approved by Full Council. For planning purposes this Plan **assumes a Council Tax increase of 1.99% in 2022/23 and 1.99% per annum for each subsequent year of the Plan. This is an officer assumption, and any rise would need to be approved by Council.** If Council approved a lower Council Tax rise or MHCLG set the referendum limit at a lower level, then this would increase the funding gap. As a guide each 1% change in Council Tax equals £0.7m of income each year. **No assumption has been included in respect of the continuation of an Adult Social Care Precept.**

Adult Social Care is still the Council’s largest area of spend. The Council has agreed a three-year arrangement to continue the integrated health and social care service run by the Integrated Care Organisation (ICO) from April 2020 with the Council paying a fixed annual contract sum with no exposure to a share of any overspend on the total ICO financial position. It is essential for the Council to continue planning, with its partners, to improve services for vulnerable adults and drive savings and efficiencies to mitigate future increases in both demand and cost. As can be seen from the table below the population of over 64 population is expected to grow over the next ten years. This plan needs to be considered in the context that a new contract will need to be in place for Adult Social Care from April 2023.

Age Group	2020 000’s	2025 000’s	2030 000’s	10 year Change 000’s	10 year Change %
Up to 4	7	7	7	0	0
5 to 17	22	23	23	1	5
18 to 64	71	71	69	(2)	(3)
65 to 79	27	28	30	3	11
80 and over	10	12	15	5	50
Total Population	137	141	144	7	5

The Council will also need to be aware of any impact on the provision of adult social care arising from any national changes in policy for health and social care and from any structural NHS changes within the geographic Devon area.

The budget challenges for future years continue and cannot be overstated. With 75% of the Council’s net budget allocated to social care, the challenge to achieve a robust budget that delivers the statutory services the Council must provide is immense.

The COVID impact on tax collection is estimated to have an ongoing impact on collection rates and Council Tax Support Scheme claims. Therefore, any spending pressures (such as from increased

demand for services, or decisions taken to increase services provided), a reduction in other grants or income will be an additional pressure which will need to be funded.

The Cabinet and Senior Leadership team are absolutely focused on implementing transformational and redesign projects at pace, as well as focussing on the Council's high value budgets, in particular both adults and children social care budgets. In respect of the solutions and options to meet the gap identified in this MTRP there will be focus on 9 "big ticket" items to drive savings and efficiencies, namely;

Service Area	Target
COVID impact	To mitigate ongoing higher expenditure (e.g housing) and reduced income (e.g collection fund, rent income and car parking).
SWISCo.	To seek efficiencies and benefits from the company's operation and realise the longer-term benefits from higher rates of recycling.
Childrens' Social care	To aim to move the net costs of the service closer to the benchmark costs of comparator councils.
Adults' Social Care	To deliver savings within the service and achieve an affordable contract with the ICO from April 2023.
Rental Income	To both mitigate any immediate income losses on the council's rented estate, including investment properties, and maximise asset income in the medium and longer term
Business Planning	From the Business Plan process to identify efficiencies, and prioritisation of services should the need occur.
Sales, Fees & Charges	To ensure that income opportunities are maximised for all services including income from subsidiary companies.
Collection Fund	To both mitigate impact on collection rates from the COVID related economic position and increase the taxbase and collection rates from the historic (pre COVID) performance.
Higher Needs Block	Whilst not an immediate impact on the revenue budget, focussed work is being undertaken in this service to find solutions, given the increasing budget deficit for this area.

The changes in the Council's funding arrangements combined with demand and inflationary pressures has required the Council to make budget reductions of approximately £96 million over the past eleven years **to set a balanced budget** with over £5m forecast to be needed in 2022/23 as shown in the table below.

Year		Value £m	Cumulative £m
2011/12		9	9
2012/13		9	18
2013/14		9	27
2014/15		12	39
2015/16		11	50
2016/17		12	62
2017/18		7	69
2018/19		7	76
2019/20		6	82
2020/21		8	90
2021/22		6	96
2022/23	Est.	5	101
2023/24	Est	7	108
2024/25	Est.	2	110

Table last updated 30 March 2021

In conclusion, there are several significant uncertainties which, as these become clearer, will inevitably lead to revision of the MTRP during 2021. The Leader and Cabinet and senior officers will work on options to meet these expected budget reductions and will issue these for consultation and debate when appropriate.

3. Impact of COVID-19

The financial impact of COVID constantly evolved during the 2020/21 financial year along with higher levels of central government funding. **The estimated financial impact in 2021/22 of £7.7m was** based on the current COVID 19 position in Torbay, of which some may only be an issue in 2021/22 only. If there is a “third wave” of the virus that would impact on the forecasts. The key issues are set out in the following paragraphs.

2020/21 Collection Fund shortfall

MHCLG have allowed any Collection Fund deficit arising in 2020/21 to be spread over three financial years from 2021/22. As part of its 2021/22 budget the Council allocated funds from 2020/21 to carry forward to meet the future costs of this deficit. The actual cost will only be known in future years as debt is either collected or deemed to be irrecoverable.

Council Tax Support Scheme

This scheme is to support residents with their council tax bills that for a working age claimant 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 were estimated at £0.750m (a 1% impact on total council tax income) and are not predicted to reduce in the next three years.**

Collectability of Council Tax

The Councils share of Council tax is over £75m a year. **The ongoing impact on the collectability of council tax in 2021/22 due to the economic conditions is estimated at 2% or £1.5m.** This is forecast to reverse over the next three years.

Collectability of NNDR

The Councils share of Council tax is over £15m a year. **The ongoing impact on the collectability of NNDR in 2021/22 due to the economic conditions linked to 2/3rd of Torbay businesses in retail, leisure or hospitality is estimated at 5% or £1.0m.** Due to extended NNDR reliefs for 2021/22 a part recovery in 2022/23 is expected however a permanent impact on retail is predicted.

Leisure and Conference Centres

The Council has two outsourced contracts for the leisure centre at Clennon Valley and the Riviera Centre. (Albeit the Council now controls the Board of the Riviera centre). Both centres have seen a complete cessation of their income during “lock down” 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 is estimated as the deficit funding required in 2021/22 and 2022/23 for the Riviera Centre with full recovery by 2023/24.**

Supporting Homelessness

With the start of lockdown under the “Everyone In” initiative the Council accommodated an extra 140 clients resulting in a net increase in costs after housing benefit of £1m. While the service is seeking to accommodate the clients in permanent rented accommodation there is expected to be an increase in people requiring support in 2021/22 linked to the economic impact resulting in more homelessness. **This**

impact is forecast at level similar to 2020/21 at £1.0m. It is expected that this position will reverse over the next three years.

Home to School Transport

The Council is responsible for providing home to transport for pupils that are eligible for support. A currently unresolved issue is the social distancing requirements that will have to be applied to pupil transport. These requirements could reduce the number of pupils per vehicle which could increase costs. It is possible any increased costs could be funded by a new government grant, however at this stage an **additional cost of £0.2m is estimated for 2021/22, which is expected to be a one-year impact.**

Service Income

The Council has had a reduction in income for a number its services income 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 a lower level than historic levels. Car park income could continue to be impacted. **This impact is estimated at £0.5m.** At this stage this income is not forecast to recover to historic levels.

Rental Income

The Council receives an income from its regeneration properties such as Fleet Walk, its Investment Fund properties such as Wren Park and from other Council properties owned within Torbay that are rented such as the shop units in Torhill House. While any rental shortfall on 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 was included.** At this stage this income is not forecast to recover to historic levels.

4. Income

Central Government “General” Funding

The **Local Government Finance Settlement** for 2021/22 was finalised in January 2021 based on the, one year, Spending Round announced in September 2020.

For Torbay over the four years of the last multiyear Spending Review its **Revenue Support Grant (RSG) reduced from £27m in 2015/16 to £6m in 2019/20**. Nationally to 2019/20 there had been a £6bn or 56% reduction in MHCLG funding for local government over the past decade. For 2020/21 and 2021/22 the RSG was not been reduced but was increased by an inflation factor.

The IFS analysis of the Budget 2021 has estimated **that unprotected government departments could face a reduction in funding of 8% in 2022/23**. If this reduction was applied to the Council’s “Settlement Funding Assessment” of £39m in 2021/22 this would be a reduction in funding of £3m. This impact has been reflected over a three-year period.

MHCLG commenced a review of the allocation of resources between councils, now likely to be applicable from 2022/23 at the earliest. The Council has forecast that it is unlikely that MHCLG can now realistically consult and introduce a new formula from April 2022 so has assumed the impact will be from April 2023. **If Torbay’s relative “need” has reduced since the last review (pre-2013) compared to other councils then the Council is likely to lose funding**. Torbay’s population has not risen as fast as the national increase which implies that Torbay’s relative need may have reduced compared to other areas. (Based on an ONS population forecast from 2014 to 2023 Torbay’s projected population increase is 4% compared to an England increase of 7%). MHCLG intend to have a formula that is as simple and transparent as possible including using **Key Cost Drivers** within each service and have started a process of consultation on the formula design.

New Homes Bonus Grant is an incentive driven grant linked to housing growth. The grant was reformed from 2017/18, reducing the financial incentive, and now reaches a maximum level when it will be based on a rolling four-year data set of new homes. In addition, a growth threshold of 0.4% was introduced. MHCLG have launched a consultation on the reform of this grant however the consultation seems to assume a higher threshold/ambition to achieve the grant. In the light of the above statement no New Homes Bonus grant has been forecast for 2022/23 onwards.

With the (proposed) move to a 75% business rate retention scheme and the removal of the RSG and other grants there is a (further) clear shift that Council funding is now significantly influenced by its economic growth (NNDR and homes) and not completely needs based. So, in simple terms if there is no growth, there is no increase in funding. This may involve the (full or partial) resetting of funding/NNDR baselines every five years to enable the redistribution of funding based on need between councils.

The impact of COVID on NNDR has highlighted the fragility of the NNDR system and the need for fundamental reform of the system. For Torbay in 2020/21, with the one year 100% NNDR (COVID related) relief for premises in “retail, leisure and hospitality”, approximately 75% of Torbay’s share of NNDR income was funded by a section 31 grant by MHCLG.

For the purposes of this Plan, the Council is assuming:

1. That the impact of the, yet to be announced, multiyear Spending Review 2021 is a £3m impact on the Council (phased over three years) due to the challenging national fiscal position offset by a recognition of the ongoing impact of COVID and the weak economy on Councils.
2. The impact of the new Funding Formula combined with an initial level of transitional protection is a reduction of £1m in 2023/24 and then a further £1m reduction in 2024/25.
3. That in introducing the new NNDR system in April 2023, MHCLG will recoup all NNDR growth since 2013 to enable the total funding to be redistributed to all Councils in the new formula to be higher. The impact of this is estimated to be a net £0.5m reduction.
4. Gain of £0.9m from the Devon wide NNDR “Pool” will disappear when NNDR levy payments are stopped from April 2023.

The table below provides an estimated position on future funding levels over the next four years, which includes an assumed £3m impact of the multiyear Spending Review 2021, an ongoing reduction in funding from COVID-19 and then from reductions and formula changes, the impact of the Business Rate Retention Scheme. The table below summaries all the income information identified in this section of the Plan:

	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	£'000	£'000	£'000	£'000
NNDR Retention – Council Share	14.2	14.7	-	-
NNDR Top Up Grant	15.1	15.5	-	-
Section 31 – NNDR New Burdens	4.4	4.4	-	-
Sub Total NNDR Retention	33.7	34.6	34.9	35.7
Revenue Support Grant	6.6	5.6	3.6	1.6
New Homes Bonus Grant	0.2	0	0	0
Council Tax	74.6	77.2	79.9	81.8
Collection Fund Surplus/(Deficit)	(1.4)	(0.6)	(0.1)	0.4
One Off Government Grant	1.8	0	0	0
Total	115.5	116.8	118.3	119.5

Service Specific Government Grants

In 2013/14 **Public Health** transferred to local authorities, this is primarily a commissioned service with a series of contracts with several providers. The service is funded by a “ring fenced” grant of £9.8m in 2021/22. The future allocation of this grant from 2022/23 under the new funding formula and a 75% NNDR scheme is uncertain. If the public health grant is, from April 2022, included in any “needs share” calculation then the NNDR Top Up grant will be increased to compensate for the loss of the specific public health grant.

The Council does receive specific grants such as **Dedicated Schools Grant (DSG)**, where the majority goes directly to schools, the Housing Benefit Administration Grant, and several other smaller grants. The DSG will reduce when more schools convert to academies; housing benefit grant funding will continue to reduce with the expansion of universal credit.

Other key grants for the Council, the **Troubled Families Grant**, **Adult Social Care Grant** and the **Flexible Housing Grant** also have not been confirmed for 2022/23, however it has been assumed these will continue.

The Improved Better Care Fund for adult social care. The grant is £8.6m in 2021/22. The grant is fully allocated to fund the ICO contract fee for adult social care. As with other grants the future allocation of this grant from 2022/23 under the new funding formula and a 75% NNDR scheme is uncertain, however it has been assumed these will continue.

The Council will continue to explore all other opportunities for further grant funding building upon opportunities such as Town Deals, Future High Streets Fund, Land Release Fund, Local Enterprise Partnership, Local Sustainable Transport Grants and other opportunities as they arise. Some funding may require an element of “match funding” by the Council.

Council Tax

Council Tax income is dependent upon several elements in the Council Tax base calculations, namely the number and mix of dwellings; changes in discounts and exemptions, impact of Council Tax Support Scheme (CTSS), the level of Council Tax and the assumed level of in-year collection.

In terms of growth in the tax base an estimated increase from housing growth of 0.5% across all years of the plan has been assumed. However, as outlined in the COVID section, it is forecast that collectability of Council tax will reduce by 2% in 2021/22 and the increase in demand for Council tax Support Scheme will reduce income by a further 1%.

Where councils can collect outstanding Council Tax in a following year(s), this income falls into the Collection Fund and is part of the Council's overall income in the financial year following collection. MHCLG has allowed that the forecast 2020/21 shortfall on the collection fund (Council tax, NNDR, CTSS) can be funded over three financial years from 2021/22.

In 2021/22 the Council set a rate of £1,641.00 Council Tax per Band D property a rise of 4.99% of which 3% is exclusively for Adult Social Care.

For planning purposes, the officer assumption within the MTRP is that the Council will increase Council Tax to the “council” referendum threshold, expected to be 1.99% in future years. The actual tax rise is approved by Council each year and MHCLG will set the council tax referendum limit each year as well.

The assumed council tax levels and tax base is shown in the table below.

	2020/21	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Council Tax Base	45,465	46,117	46,749	46,985
Council Tax Level - (Band D)	£1,641	£1,674	£1,707	£1,741
Council Tax Rise - %	4.99%	1.99%	1.99%	1.99%
Council Tax Income	£74.6m	£77.2m	£79.8m	£81.8m

Table last updated 30 March 2021

In 2021/22, Torbay had the lowest Band D Council Tax in Devon at £1,967.56 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)	Teign- bridge (District Council)
District Council	-	-	165.05	175.42	180.17
Devon County	-	-	1,511.28	1,511.28	1,511.28
Total	1,641.00	1,653.35	1,676.33	1,686.70	1,691.45
Fire & Police	326.56	326.56	326.56	326.56	326.56
Band D (excluding parish precepts)	1,967.56	1,979.91 +0.6%	2,002.89 +1.8%	2,013.26 + 2.3%	2,018.01 + 2.6%

Table last updated 30 March 2021

Business Rate (NNDR) Income

The Council currently retains a **49% risk/reward of increases or decreases in business rate income** from an assumed “baseline” set as at April 2013. The Council will benefit from any growth in the overall rateable value of all the businesses in the Bay both from the annual inflation increase and from growth in the number of businesses. Conversely the Council will have reduced funding from any decline in business numbers, higher level of exemptions given and the impact of any downward revaluations from appeals. From 2020/21 NNDR rises will be linked to the usually lower CPI which will reduce council income compared to RPI.

The Council is liable for 49% of the cost of any revaluation appeals. The value of this liability for back dated appeals will be the result of any appeals awarded by the Valuation Office.

The government has confirmed its intention to allow councils to **keep 75% of NNDR income by 2022/23 (at the earliest)**. When the change in funding happens, other funding being reduced and, maybe, more responsibilities being passed to Councils. In addition, the central government has referred to a fundamental review of NNDR which will impact on the Council as both a billing authority and one that is part funded from NNDR.

It is unclear how MHCLG will “reset” any NNDR growth since 2013. The Plan assumes that the direct benefit of all growth above NNDR baseline will be removed from Councils when setting new NNDR income baselines for 2022/23 and the growth will form part of the total “pot” to be subsequently allocated on the new Funding Formula. This plan assumes that Torbay will lose any growth above its 2013 NNDR baseline but gain from a higher “pot” to be allocated – an estimated net £0.5m loss in funding. There is still the possibility that NNDR income will be “reset” for 2021/22 in advance of any other changes to the system.

In December 2018 MHCLG released a latest consultation on NNDR which is expected to form the outline design for the new scheme. Features of scheme in consultation include:

- Introduction of a 75% scheme from 2022/23 (revised date)
- NNDR increases/decreases in growth kept/funded by Councils in a five-year period
- **Every five years a “partial or full reset” of NNDR growth** with NNDR income from councils with growth transferred to councils with need subject to an element of growth being kept.

- Councils with negative growth will be protected.
- Existing NNDR pool and levy payments to go
- New, yet unidentified, incentives for NNDR pools (with other Councils)
- New, yet unidentified, incentives for **Local Growth Zones** (with other Councils)
- Sharing of appeal risk, shared between councils or risk held by MHCLG with annual adjustments made to Council baselines for changes from appeals.

The Government's figures are based on their assumed NNDR baseline for Torbay. The actual NNDR income for Torbay will depend on actual changes in NNDR income – up or down – from that baseline. The MTRP assumes that any NNDR growth will be lost in 2022/23 on the introduction of the new NNDR scheme. **The level of NNDR in Torbay continues to be weak therefore a “stable” position has been reflected over the period of the plan.**

Where councils can collect outstanding NNDR in a following year(s), this income falls into the Collection Fund and is part of the Council's overall income in the financial year following collection.

If central government changes any aspect of the NNDR system, by changing reliefs such as the (one off) 100% relief for retail, leisure and hospitality premises in 2020/21 linked to the impact of COVID19 or capping inflationary increases, then the impact of these changes on Council NNDR income should be met by central government providing a “S31 New Burdens” Grant. As Government changes these reliefs etc this will change the split of income between NNDR and grant, which could distort year on year comparisons. It has been assumed that all (ongoing) changes to NNDR reliefs etc. since 2013 will be incorporated in a new system.

Service Income

The Council receives approx. £20m **from fees and charges** and other sources of income. Some charges are set by legislation (e.g., licensing charges) whereas others the Council has discretion to determine. Fees and charges are set on an annual basis as part of the budget approval by Council. As a result, COVID 19 for 2021/22 a contingency for some income budgets, such as car park income, has been introduced to reflect forecast lower income levels.

This Plan assumes an annual inflationary increase of 3% each year where realistic. However, Service Managers will need to consider all options for income generation in the context of the challenging financial period facing the Council whilst taking into account issues of subsidies to encourage usage and the impact of charges upon residents and their ability to pay in these difficult economic times.

In addition to income from sales, fees and charges the Council receives a further £20m **of rental Income** each year. A significant proportion of this rent income relates to property purchases from the Investment Fund established to purchase Investment Properties for generating income to support the Council's overall financial position.

The purchase of these type of properties is a different risk profile for the Council which is reflected in the approved Investment and Regeneration Strategy and the approved Capital Strategy. The Council in its financial planning, particularly in the light of any ongoing economic impact of COVID19, will need to regularly review the rent levels and the value of the assets themselves.

5. Expenditure

The 2021/22 budget approved by Council in February 2021 provides the base position of the financial strategy. The starting point is the 2021/22 base budget from which projections can be made using known or estimated data and the assumption that the services provided in that figure will continue at the same level and performance. In addition to this there are certain key assumptions which have been applied and these are:

- (a) Pay inflation. An assumption of an average 2.0% rise (higher for lower grades) is made for all years of the Plan. (Note the 2021/22 pay award has not been agreed and the Chancellor refers to national “public sector pay restraint”).
- (b) Increments. These are no longer funded as part of the budget build. Any changes in employees’ salaries will have to be met by the service.
- (c) General inflation. Inflation is a routine and unavoidable cost pressure for Torbay and is part of the Council’s budgetary process. A unique inflationary factor is applied to over 40 individual items of expenditure where the cost changes are highly likely such as contractual inflation and for energy costs. This is the net amount after applying inflation to both expenditure and income. This cost is likely to increase if, as forecast, inflation rates increase in future years.
- (d) Revenue impact of Council decisions. Where the Council has taken a decision that will impact on future revenue budgets this is included (such as infrastructure works and IT from prudential borrowing as part of Capital Plan).
- (e) The next actuarial review of the employer’s pension contribution is applicable from April 2023. At this stage a 2% increase in the employer’s contribution rate has been assumed linked to lower asset values linked to the ongoing economic impact of COVID.
- (f) National Living Wage is expected to rise in future years. This will impact on some Council staff and on Council suppliers, in particular Care Home providers.

Service Expenditure Pressures

As well as the anticipated reduction in funding, the Council’s budget is also under pressure from the other direction with a continuing increase in the number of vulnerable people accessing Council services, notably within Adult Social Care and Children’s services. Information on the Council’s population and other demographic information are available on <http://www.southdevonandtorbay.info/>

Torbay has a **higher-than-average elderly population**, and it is expected that this will grow significantly over the next twenty years. In addition to the pressure on Adult Social Care there will also be general growth in population. It is anticipated that the local population will grow by over 0.5%, (330 households), per annum with a consequent pressure on services (e.g., housing, benefits, education, community facilities, and transport).

Provision has been made in the plan for 2022/23 onwards for **demand from both growth and changes in the local population** of £0.5m (e.g., social care) and from infrastructure **demographic growth and demand pressures** linked to more housing infrastructures of £0.5m (e.g., waste collection, highway maintenance).

Over several years there has been a continuing financial impact of service pressures within **Children's Services** due to caseload, complexity of cases and lack of local provision for care. To reflect this ongoing pressure and to provide additional capacity within the service, additional funds of £9.8m were included in the 2020/21 budget. Budget monitoring in 2020/21 are indicating an underspend in this service for 2020/21 and a reduction in budget was included for 2021/22.

The service spends significantly above its statistical neighbours which are directly linked to the higher-than-average number of childcare cases. Due to the national pressures on children's social care and the lack of supply of suitable placements and experienced staff, historically the cost of each placement has been increasing. In addition, there was a trend that caseloads are more complex which also increases the cost of each placement.

Within the schools funding allocation from Department of Education (the Dedicated Schools Grant - DSG) there is a significant budget pressure on the Higher Needs Funding "block" within the DSG grant where **demand for higher needs support for pupils exceeds the DSG grant**. Schools Forum have recognised this issue and agreed to a transfer of 0.5% of funding from the school's "block" to support higher needs in 2021/22. Schools Forum have set up a Higher Needs Recovery group to look at options to stabilise the current budget position and fund previous year deficits.

The Department for Education has, in part, recognised the budget pressures several Councils are experiencing and allocated additional fund in 2020/21 and 2021/22. However, this extra funding plus the agreed 0.5% transfer will still leave a budget deficit of at least £2m in 2020/21. **This deficit will result in an accumulated deficit of at least £6.0m by the end of 2020/21 which is unsustainable and is forecast to increase by a further £2.5m in 2021.22.** It is clear from legislation (Regulations passed in February 2020) that this financial pressure not a direct cost to the Council but will ultimately need to be funded from the DSG grant **but it is unclear how, when and if, this will be funded in the longer term.**

Whilst the Council "carries" this deficit by means of a negative reserve it is a significant risk to both the Council and Schools.

Adult Social Care is still the Council's largest area of spend. The Council's current agreement is for an integrated health and social care service run by the Integrated Care Organisation (ICO) with Council paying an annual contract sum with no exposure to a risk share of any overspend on the total ICO financial position. It is expected that a new three year fixed price contract is in place for April 2020. This gives certainty to the Council over its costs until April 2023 where an increased annual cost of £2m has been included. There is however uncertainty over both the future values (if any) of the Improved Better Care Fund, Better Care Fund and Independent Living Fund in 2021/22 and future years.

The Council has an increasing backlog of repairs and maintenance on its assets in particular property and transport infrastructure assets. The value of the estimated backlog on both these asset types (in 2015) was £22m and £11m.

Changes to Council Functions and Initiatives

There are several initiatives being implemented by the Council which will also be included in the Council's financial planning. Several changes are listed below.

Initiative	Description	Timing
Council Re design	Review business process throughout the Council	Ongoing
TOR2 to SWISCo - subsidiary company	TOR2 contract ended June 2020 with services transferred to SWISCO with some council functions transferring in December 2020.	July 2020 and ongoing
TorVista Homes and TEDC Developments - subsidiary companies	New subsidiary companies to build and rent affordable housing – first house purchases in March 2021	Ongoing
Torbay Education Limited	New company to run the Medical Tuition Service	September 2021

Council Owned Companies

The Council owns or has a shareholding in several companies: there are six TDA related companies including Torvista and TEDC Developments, Careers South West (25% ownership), Torbay Education Limited (100%) and SWISCO (100%). As the Council is owner of these companies and will consolidate these companies in its Group Accounts, the financial performance of these companies and their assets and liabilities need to be regularly reviewed to ensure that there is not a financial implication for the Council in future years.

Benchmarking

The Council during 2021 will make more extensive use of benchmarking to understand what a target net budget set on the average cost of services for the Council compared to “similar” councils would be. As an initial guide using the data set of MHCLG 2018/19 “RO” outturn data would indicate the following changes in budgets.

Service Area	Budget Change to Benchmark
Education Services (linked to Academies)	+£3m
Highways & Transport (includes parking)	+ £4m
Childrens Social Care	(£17m)
Adult Social Care	(£2m)
Public Health	(£2m)
Housing	(£0.5m)
Cultural & Related	0
Environmental & Regulatory	(£0.4m)
Planning and Development	(£0.5m)
Central Services	(£0.5m)
Total	(£15.9m)

6. Reserves and Risk

Reserves

There continues to be a considerable amount of attention and debate given to the level of reserves held by local authorities which has been increased by the financial impact of COVID. The Government in previous years has expressed a view that all Councils could be utilising reserves on a temporary basis during this period of austerity. Conversely as budgets are reduced, risks rise therefore there is a strong counter view that reserve levels should increase to reflect that increased risk.

The Council annually reviews and revises the level and appropriateness of the reserves being held following recommendations from the Chief Finance Officer taken in the light of the requirements of the Local Government Act 2003 and CIPFA guidance. It is essential that reserves are sufficient to meet future demands and commitments and to ensure the level of reserves considers the current and future risks faced by the Council. Where reserves are reduced and released these can only be used to fund one off initiatives and not ongoing commitments. The 2021/22 Review of Reserves report was presented to Council in February 2021.

The main pressures on reserves are:

- Financing any future year overspends in particular in social care
- Financing any ongoing impact of COVID.
- Financing the costs of reducing budgets, primarily the costs of staff reductions and any set up costs for revised service arrangements
- Mitigating annual volatility in income streams especially from NNDR
- Mitigating income volatility on investment property income and expenditure
- Negative reserve from increasing deficit on Dedicated Schools Grant - higher needs block

These risks are significant, and the Council needs to ensure it has an appropriate level of reserves. The ongoing financial pressures in children social care has put the Council's reserves under strain.

The Chief Finance Officer recommends that the **Comprehensive Spending Review reserve balance is maintained at a balance of £3m**. If this balance is forecast to reduce below this level a provision to increase this reserve will be included in future year budget proposals. As a result, the MTRP includes an additional annual £0.5m to increase the balance to the target level.

In addition, the Council's **general fund reserve will be increased by an additional contribution in 2020/21 to a level of £5.6m which is close to 5% of the Council's net revenue budget. This level is low** compared both to other Councils, but any increase is to be welcomed as prudent.

Risks

The projected budget gap over the life of this Plan is an estimated position and is subject to change and is based upon a series of assumptions and projections which will be regularly reviewed for future years to ensure they continue to be realistic.

There is therefore a risk that the projections for the budget deficit may prove to be either under or overestimates – primarily due to the uncertain and very fluid ongoing impact of COVID-19 and the ultimate level of central government funding to mitigate, number of significant changes to the system for local government both from the review of the funding allocation between Councils and the introduction of a 75% NNDR retention scheme. To mitigate this risk, the MTRP will be updated as appropriate to take account of changing circumstances and new intelligence.

In addition to the significant funding uncertainties listed in the overview section of this plan in particular the Spending Review 2021 review, new funding formula and impact of 75% NNDR retention and the potential changes in services currently now provided by SWISCo, other significant financial planning risks that may affect the projections are likely to be:

- Inflation runs at a much higher rate than the rates that have been assumed,
- Borrowing costs are higher than anticipated in any Business case for capital expenditure.
- Income projections built into the budget may not be achievable due to factors outside of the council's control e.g. a worsening economic outlook, further reduction in investment yields.
- Ongoing demand and cost of social care both Children's and Adults.
- Ongoing impact of COVID on Council services and income
- Impact of major changes in Adult Social Care such as the future "Green Paper" and the future of the Better Care Fund.
- Achievement of the Council's transformation projects in both their timing and income target
- Potential revenue costs of major capital schemes and the risk of overspends on major capital projects.
- Risk of achievement of income targets on major capital investment projects, those funded from prudential borrowing where there is a known additional MRP and interest cost.
- Achievement of 2021/22 and future year budget savings
- Financial Performance of the Integrated Care Organisation and the Council's future adult social care cost.
- 2023 Pension actuarial Review
- Future year increases to the Living Wage
- Collection fund balances – collection of NNDR and Council Tax
- Risk of exposure of any major legal claims against the Council
- Impact of the Devon-wide NHS changes on Torbay
- Impact from the TDA and its related companies' expansion into new trading areas including housing

- Impact of major schemes linked to Regeneration
- Impact of Council ownership of SWISCo
- Impact of Ofsted judgement of “inadequate” for children’s social care
- Reserve levels “resilience” to future financial pressures

Appendix 1 – Timetable

The key dates in relation to the Council's 2022/23 budget setting process are:

Revenue Budget Setting Process		Timeline
2022/23 Budget Development	Cabinet & Chief Executive	March 2021 – October 2021
MTRP – Targeted actions to meet “gap”	Cabinet & Chief Executive	April to September 2021
MTRP – Updated “gap”	Chief Finance officer	August 2021
Spending Review	HM Treasury and MHCLG	Autumn 2021
2022/23 Partnership Budget Proposals	Cabinet	October 2021
2022/23 Budget Proposals Consultation	Cabinet	November to December 2021
2022/23 Finance Background Reports available	Overview & Scrutiny Board	By November 2021 for (a minimum of) six weeks
Local Government Finance Settlement	MHCLG	December 2021
2022/23 Budget Approved	Council	February 2022
2022/23 Council Tax Set	Council	February 2022
2022/23 Budget Digest published with MTRP update	Chief Finance Officer	March 2022
2023/24 & 2024/25 Budget development	Cabinet & Chief Executive	Ongoing