October 2018 Update

Medium Term Resource Plan

Creating a prosperous and healthy Torbay

Contents

This Plan is a rolling document that will be updated on an ongoing basis when changes are known e.g. legislation, funding notification and estimates of income and expenditure.

For further information please email **financial.services@torbay.gov.uk**

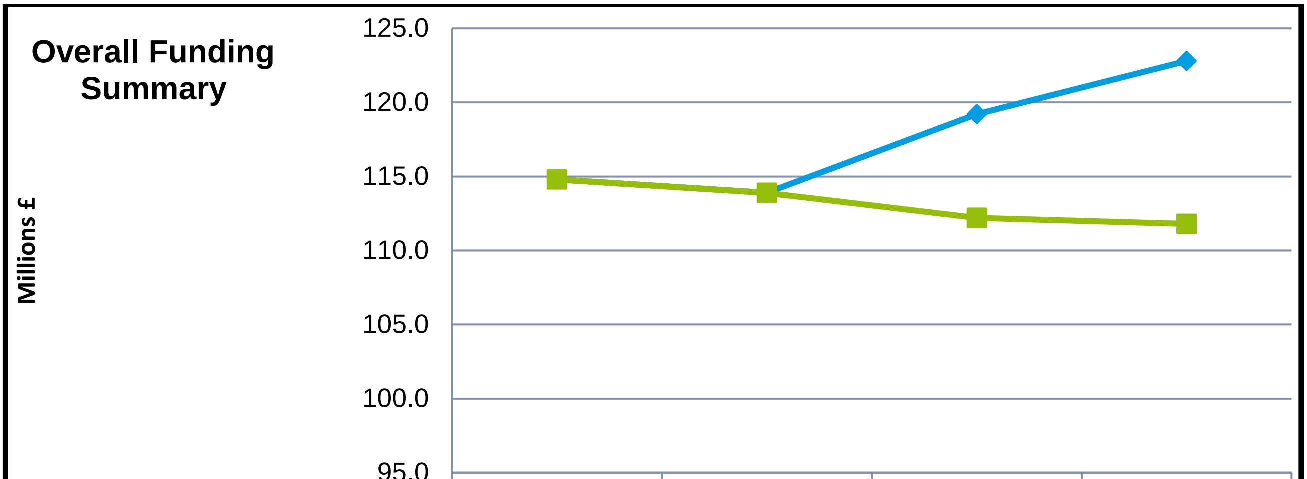
Plan last updated on 24 October 2018

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 Elected Mayor's 2019/20 budget proposals (issued for consultation in November 2018). This takes account of the income and expenditure pressures arising from the assumptions which are detailed within this Plan.

Revenue Budget	**2018/19** **£m**	**2019/20** **£m**	**2020/21** **£m**	**2021/22** **£m**
Estimated Sources of Finance (Revenue Support Grant, New Homes Bonus, National Non Domestic Rates, Council Tax & Collection Fund)	**(112.0)**	**(111.1)**	**(108.8)**	**(108.4)**
Investment Fund Net Income	(2.8)	(2.8)	(3.4)	(3.4)
Sources of Finance Including Investment Fund	**(114.8)**	**(113.9)**	**(112.2)**	**(111.8)**
Net Expenditure budget Net expenditure base budget brought forward	112.9	114.8	114.5	112.2
In year movements e.g. known changes and service investments	2.3	(0.7)	2.2	1.1
Inflation and pay award	1.9	1.8	2.0	2.0
Children's Services	3.0	3.3	0.5	0.5
Adult Social Care – Council Tax precept	1.8	0	0	0
Less approved service savings/income	(7.1)	(0.8)	0	0
Budget Proposals & Transformation	0	(4.5)	0	0
Total Net Expenditure budget	**114.8**	**113.9**	**119.2**	**115.8**
Additional Savings required <u>in year</u> to balance budget	**0**	**0**	**(7.0)**	**(4.0)**
Total Net expenditure budget after savings	**114.8**	**113.9**	**112.2**	**111.8**
Savings required – Cumulative position:	***0***	***0***	***(7.0)***	***(11.0)***
Savings Identified – October 2018	-	-	*0*	*0*
Balance of savings to be identified – October 2018	*0*	*0*	*(7.0)*	*(11.0)*

Table last updated 24 October 2018



	2018/19 £ m	2019/20 £ m	2020/21 £ m	2021/22 £ m
Expenditure excluding all savings for the period of the Plan	114.8	113.9	119.2	122.8
Income	114.8	113.9	112.2	111.8

Table last updated 24 October 2018

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 and will help the Council deliver the priorities as set out in the Corporate Plan.

Council approved the budget for 2018/19 on 9 February 2018. These proposals are included within the financial tables in this report. As part of the budget there is a useful **Budget Proposals Summary** which focused on the key budget issues.

The MTRP highlights the financial challenges faced by the Council. It is now estimated that the Council will have to close an **estimated budget gap of £17m over three years** between 2019/20 and 2021/22 based upon existing service demands and “normal” budget pressures including inflation, demand pressures and income assumptions. **Of the £17m as at October 2018, £6m had been identified for 2019/20 which enabled the Elected Mayor to propose a balanced budget.** These reductions have to be set in context of the Council having to absorb the impact of rising costs, in particular to meet the rising demand for children’s social care where the numbers of children looked after increased by 20% in the first half of 2018 with an increase in costs of £3m.

This Plan summarises the expenditure income and expenditure position over the next three years. In effect it identifies the size of the funding “gap” without identifying any potential options. Other Council documents identify the Council’s plans for bridging that gap. For 2019/20 the Elected Mayor’s budget proposals to deliver a balanced budget will be released in November 2018.

Forecasting for 2020/21 and beyond is a challenge to the absence of any central government announcements on funding and potential changes in spend on social care which is over 65% of the Council’s net budget. The projected funding gap could be significantly impacted by a number of changes to key “factors”:

Impact of a Change in key “factor” for 2020/21	Best case £m	Central case £m	Worse case £m
10% change in children social care spend	(£3m)	£0.5m	£3m
10% change in adult social care spend	(£4m)	0	£4m
10% change in local government funding	(£4m)	£2m	£4m
10% change in Council’s funding formula	(£4m)	£1m	£4m
New 2% Council tax Precept for Social Care	(£2m)	0	n/a
Removal of New Homes Bonus Grant	0	£1m	£1m
Removal of Improved Better Care Fund	0	£7m	£7m

There are currently no funding announcements made for 2020/2021 and 2021/2022, with 2020/21 being the first year after the current four year settlement for councils and the first after the central government Spending Review in 2019. It is assumed that central government will still aim to reduce total spending in local government but at a reduced level of reductions than the past four years. 2020/21 is expected to be the first year after the new (currently being devised) funding formula for allocating funding between councils. It is assumed that Torbay Council will see a reduction in funding linked to the Council’s population growing slower than the national average with any reductions phased over two years.

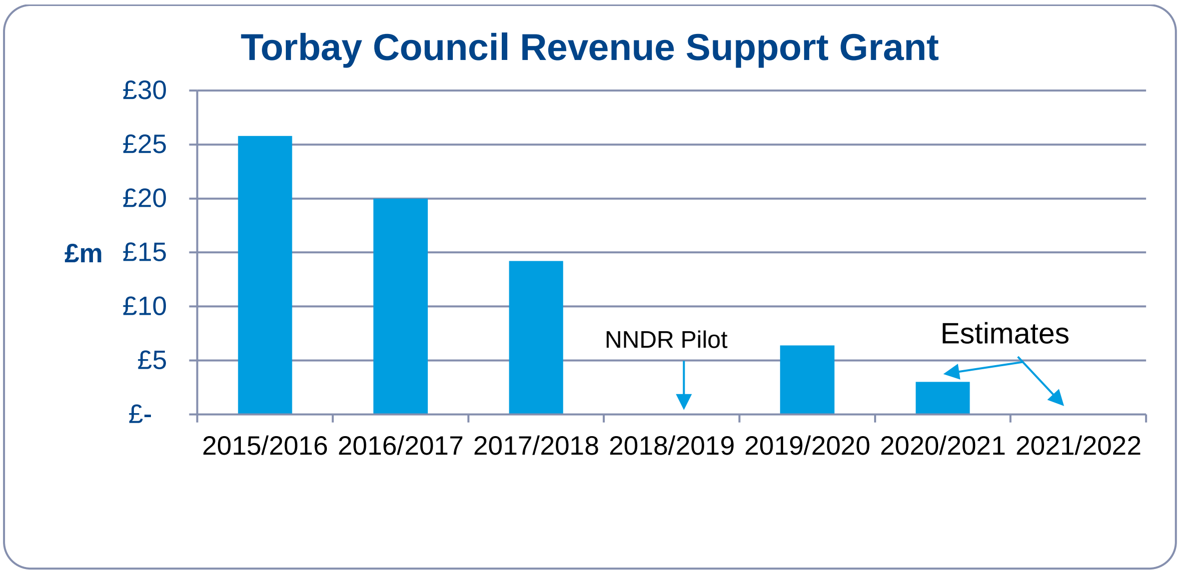
We already know that the Council’s central government funding will reduce by £4m in 2019/20 and may reduce further in 2020/21. Therefore the budget challenges for future years cannot be overstated. These are significant funding reductions and, with about 65% of the Council’s net budget allocated to social care, the challenge to achieve a robust budget that provides the statutory services the Council must provide is immense.

The Council must continue to explore new ways of delivering Council services. The Transformation Portfolio will continue, linking to the support of the local community and partners, with an emphasis of maintaining service levels whilst maximising value for money and reducing its cost base through generating further efficiencies. However, in a number of services, it is increasingly difficult to generate further efficiencies without reducing service levels, and the Council must continue to plan for a reduction in services provided to customers over the short and medium term.

The Elected Mayor and senior officers will continue to work on options to meet these expected budget reductions and will issue these for consultation and debate when appropriate.

The **Local Government Finance Settlement** for 2018/19 was finalised in February 2018. This settlement combined with a number of related announcements, such as a review of funding allocations between councils (expected to be from 2020/21) and the impact of the national Spending Review 2019, will lead to a very challenging and uncertain period for local government.

For Torbay as part of its four year settlement its Revenue Support Grant (RSG) reduces from £27m in 2015/16 to £6m in 2019/20. Nationally this is a £6 billion or 56% reduction in MHCLG funding for local government.



The Government also confirmed its intention to allow **councils to keep 75% of NNDR** from 2020/21. When the change in funding happens it will be fiscally neutral with councils keeping 75% of NNDR income with RSG removed completely, other grant funding being reduced and more responsibilities being passed to councils. A previous NNDR consultation referred to a five year period between each "partial reset" of NNDR growth to keep a balance between councils' ability to raise funds (via NNDR) and their need for funding based on demand for services.

Torbay along with all other Councils in Devon submitted a bid to be a Devon wide 100% NNDR pilot area for 2018/19. This bid was accepted and for 2018/19 Torbay will have a "Minimum Funding level" of £1.5m of NNDR income from this pilot. **The 100% NNDR pilot was announced for one year only**. In July 2018 MHCLG invited councils to submit new bids for 2019/20 but as a 75% NNDR pilot which reduces by half the gains from participating in a pilot. It is expected that the number of pilot areas will be reduced with increasing completion from other bids.

Although initiatives such as the current a four year settlement are broadly welcomed there are a number of **significant uncertainties** as much detail has not yet been announced and will be subject to consultation. This will inevitably lead to revision of the MTRP and Transformation Plans as more clarity emerges over the next few years.

Funding uncertainties include:

- MHCLG have announced a review of the allocation of resources between councils from 2020/21. If Torbay Council's relative "need" has reduced since the last review compared to other councils then the Council is likely to lose funding.

- Changes to adult social care funding to the Improved Better Care Fund. It is unclear how this will be allocated from 2020/21.

- Impact on total local government spending from Spending Review 2019

- Impact on total funding available for local government spending from the extra £20b of funding for the NHS

- Impact on total funding available for local government spending from the uncertainty of the terms and financial impact of the current "Brexit" negotiations.

- The method of restating Councils funding on the move to 75% NNDR retention in 2020/21. How will the baseline for the change be set and calculated is subject to consultation.

- Impact of future national changes to NNDR to Council income such as changing reliefs.

- The move to change NNDR increases from RPI to the (usually) lower CPI from 2019/20 will reduce income

- The risk to council NNDR income from of 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 on line shopping.

- Reducing the link between funding linked to "need" to funding based on taxbase growth (both housing and NNDR) does not recognise councils ability to raise tax income which will lead to funding inequalities.

- No funding announcements for 2020/21 onwards

Based on the proposed change by the end of this parliament it is likely that Torbay Council will be primarily reliant on Council Tax and NNDR income for its funding. This move does present risks to the Council due to the potential variations in income. However, it provides a very **strong incentive for the Council to plan for and achieve taxbase growth** in both these areas, subject to the five year partial reset of NNDR income.

In late October the Chancellor announced his **Budget 2018**. The budget contained a number of one off funding announcements in either or both 2018/19 and 2019/20 for adult social care, highways, disabled facilities grants and for social care. Any additional funding is welcome and the specific allocations for Torbay will be introduced in the Council's financial monitoring and budgeting when confirmed. As the announced funding is one off in nature it can not be used to support the Council's base budget for 2019/20 and future years. The Budget also contained more changes to the, already complex, number of NNDR reliefs from April 2019. The Council will expect to be compensated for any loss of NNDR income.

The Budget also outlined a “path for day to day spending by departments” that will grow by 1.2% per year in real terms for 2019/20 to 2023/24. This increase however includes the significant NHS settlement resulting that other services will rise, in total, by inflation only and notes that the Spending Review “will ensure that funding is directed to its priorities within that overall envelope”. Given this ongoing uncertainty over future allocations and for every departmental that gains within “that overall envelope” (such as say defence or schools) then another department will therefore lose funding. As a result no changes to the future year funding changes are being made in this update.

In 2015 the Local Government Association in a Peer Review looked at both the Council’s financial resilience and governance. In relation to financial resilience, the report concluded that Torbay Council’s financial position was no worse than a number of other councils but faced significant financial challenges. **The team concluded that Torbay Council was viable in the future if it made tough financial decisions at pace**. The LGA inspection was followed up in September 2016 and the LGA also carried out a specific financial review. This was complemented by the use of CIPFA in a Financial Resilience Review. All three reports were reported to Council in February 2017. A further LGA financial review will be undertaken during the autumn of 2018.

A key message from these reviews, which is still relevant, is the need to implement transformational projects at pace to realise the savings required in the short and medium term. The CIPFA review also emphasised the need to focus on cost reductions on the Council’s high value budgets, in particular both adults and children social care budgets and on income generation.

Councils are able to raise Council Tax by 1.99%. Any Council Tax rises of 2% or over would be subject to a local referendum. However in the 2018/19 Local Government Finance Settlement the limit was raised to 3% or over with an indication, confirmed by MHCLG in July 2018, that this level could apply in 2019/20. In addition, councils like Torbay with social care responsibilities, are now able to raise Council Tax specifically for social care by 6% over three years from 2017/18. Torbay Council approved 3% in both 2017/18 and 2018/19 so now has no option for 2019/20. For planning purposes this Plan **assumes a Council Tax increase of 2.99% in 2019/20 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 then this would increase the funding gap. As a guide each 1% increase in Council Tax would generate an additional £0.6m of income each year.

The funding outlined above issues result in a net cash reductions in funding therefore any spending pressures (e.g. increased demand for social care), inflationary pressures or a reduction in other grants or income will be an additional pressure to be funded from budget reductions or **transformation projects.**

There is a continuing financial impact of **demand pressures within Children’s Services** due to caseload and complexity of cases. Continuing overspends of the levels of recent years is unsustainable and for 2018/19 the Council has made a significant budget increase of 10% in 2018/19 to this service to rebase the budget to a sustainable level. Despite this significant increase the service has seen a 20% increase in looked after children since December 2017 and this is likely to result in **a budget shortfall in 2018/19 in excess of £3.5m.** The service spends significantly more than its statistical neighbours directly linked to the number of looked after children and a reduction in spend to be closer to this level is still fundamental to the Council achieving a balanced budget over the next few years. The Children’s Services Medium Term Financial Strategy was approved by Council in February 2017 and this document provides a base for future year budget saving options for this service. The Council continues to aim to maximize the benefits of working with Plymouth City Council on this service from 2018/19.

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 now paying, under the revised Risk Share Agreement (RSA), a higher annual contract sum with no exposure to a risk share of any overspend on the total ICO financial position. It is essential for the Council to continue planning, with its partners, for the contract and risk share agreement that will be applicable from October 2020 when the current arrangement ends and in particle what level funding for Adult Social care will be required. **The reduction in the RSA contract value for 2019/20 of £0.8m has been included** in the financial forecasts.

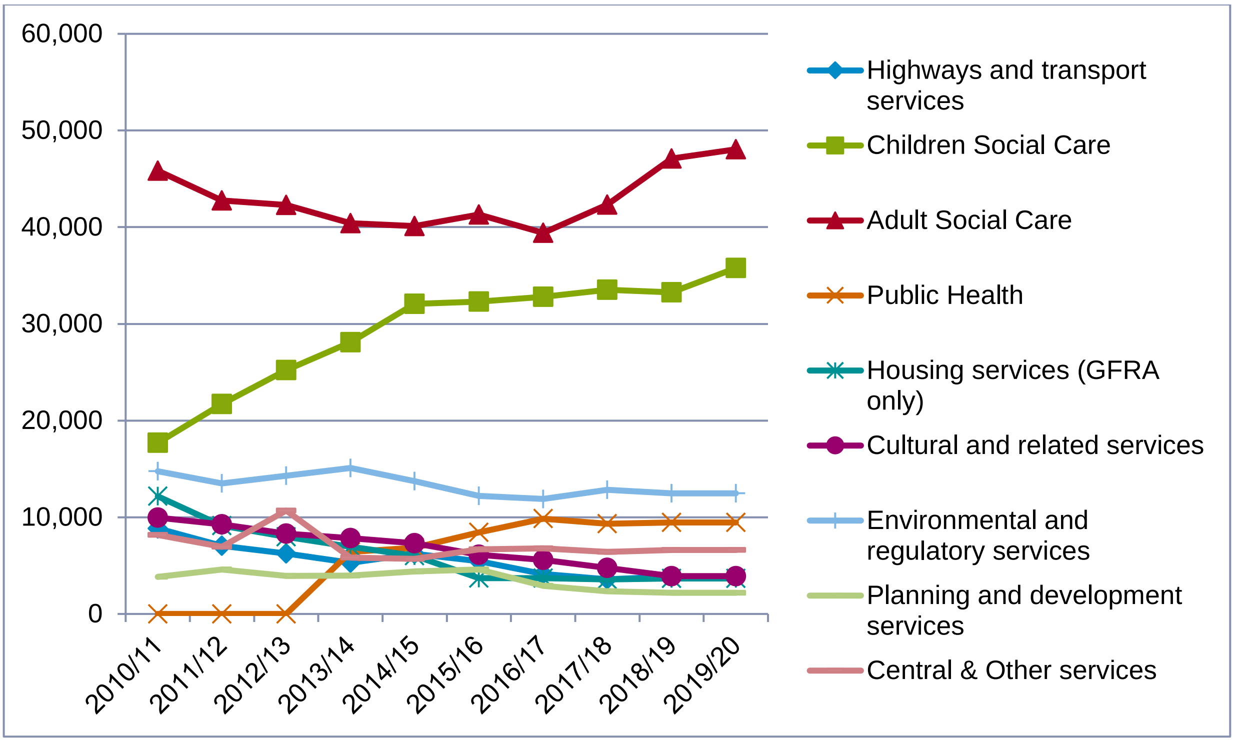
The Council will also need to be aware of any impact on the provision of Adult Social care arising from any national changes in policy for health and social care and from any structural NHS changes within the geographic Devon area arising from the Sustainability and Transformation Partnerships (STPs).

The changes in the Council's funding arrangements combined with demand and inflationary pressures has required the Council **to set a balanced budget**, to make budget reductions of approximately £76 million over the past seven years with £6m planned for in 2019/20 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	Est.	6	82
2020/21	Est.	7	89
2021/22	Est.	4	93

Table last updated 23 August 2018

A summary of Council spend on its services (based on MHCLG reporting format) since 2010 shows a clear reduction on all services except for social care. The summary shows a 90% increase in spend on children social care. Adult Social care spend has risen in recent years due the increased funds for this service from both the additional Council Tax precept and the Improved Better Care Fund.



The National Audit office in March 2018 issued a report on the financial sustainability of Local Authorities. The report highlighted the impact of funding reductions on Council budgets since 2010. Comparing Torbay with the changes in the NAO report shows the changes in Torbay services were broadly in line with other councils. The significant difference was the 88% change in the level of spend on childrens' social care compared to a much smaller national increase.

	Planning & Develop't	Housing	Highways & Transport	Culture & Related	Environment & Regulatory	Central Services	Adult Social Care	Childrens Social Care
NAO to 16/17	-53	-46	-37	-35	-17	-15	-3	8
Torbay to 18/19	-43	-70	-56	-61	-15	-19	3	88

The Council will continue to plan for other Government changes in funding, including:

- The continuing conversion of Council-maintained schools to Academies and the new Schools Funding Formula

- The ongoing impact of welfare changes in particular the replacement of a number of benefits, such as Housing Benefit (that the Council manages) with Universal Credit

- Any changes arising from the devolution agenda in Devon and Somerset.

- Ongoing reductions in the Public Health Grant

The Council's Capital Plan, Capital Strategy, Asset Management Plan and the Treasury Management Strategy are also 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**

3. Income

Central Government "General" Funding

The **Local Government Finance Settlement** for 2018/19 was finalised in February 2018. This settlement combined with a number of related announcements, such as a review of funding allocations between councils (expected to be from 2020/21) and a 75% NNDR retention scheme, will lead to a very challenging and uncertain period for local government. There was no changes to the previously announced four year funding settlement of which 2019/20 is the last year.

For Torbay over the four years of the settlement its **RSG reduces from £27m in 2015/16 to £6m in 2019/20.** Nationally this is a £6bn or 56% reduction in MHCLG funding for local government. The Council's assessment of need for grant was "frozen" at a baseline for 2013. For Torbay its baseline was set in 2013/14 at £71m of which RSG was £43m. RSG will reduce to £6m by 2019/20, a £37m reduction.

MHCLG has commenced a review of the allocation of resources between councils likely to be applicable from 2020/21. 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.

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 based on 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 (partial) resetting of funding/NNDR baselines every five years to enable the redistribution of funding between councils.

The table below provides an estimated position on future funding levels over the next four years, which includes an assumed reduction in Revenue Support Grant including the impact of a 5% cut to the Councils' Funding Assessment (SFA). It must be emphasised that due to the uncertainty with respect to government grant reductions and formula changes in 2020/21 onwards, the impact of the Business Rate Retention Scheme where income can fluctuate and any future funding changes, this is an estimated position at a point in time. The table below summaries all the income information identified in this section of the Plan:

	2018/19 **£'000**	**2019/20 Estimate** **£'000**	**2020/21 Estimate** **£'000**	**2021/22 Estimate** **£'000**	*2020/21 Post 75% NNDR £'000*
Revenue Support Grant	0	6.4	6.4	6.4	*0*
New Funding Formula & Spending Review	0	0	(3.0)	(6.0)	*(3.0)*
New Homes Bonus Grant	1.4	1.0	0	0	*0*
Business Rate Retention – Council Share	30.4	15.3	14.8	15.1	*22.4*
NNDR Top Up Grant	7.6	14.9	15.2	15.5	*12.3*
Section 31 – NNDR New Burdens Grant	5.4	3.4	3.4	3.5	*5.1*
Council Tax	65.5	68.4	70.3	72.2	*70.3*
Collection Fund Surplus/(Deficit)	1.7	1.7	1.7	1.7	*1.7*
Total	**112.0**	**111.1**	**108.8**	**108.4**	*108.8*

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 a number of providers. The service is funded by a 2018/19 grant in excess of £9.3m. This grant is ring-fenced until at least 2019/20 so for the purposes of the Plan has not been included within the overall figures. This grant is to reduce by 2.5% per annum each year. The future allocation of this grant from 2020/21 under the new funding formula and a 75% NNDR scheme is uncertain.

The Council does receive specific grants such as **Dedicated Schools Grant (DSG),** where the majority goes directly to schools and the Housing Benefit Administration Grant (which is treated as part of the revenue account), and a number of other smaller grants. The DSG will reduce as more schools convert to academies; the housing benefit grant will reduce with the introduction of universal credit.

New Homes Bonus Grant is an incentive driven grant linked to housing growth. However the funding for this distribution is not "new money" but money recycled from reducing Revenue Support Grant paid to councils. It is a clear risk to the Council that, unless its rates of growth and therefore "reward" is greater than the funding withdrawn, the Council will have future budget pressures. The grant was reformed from 2017/18, reducing the financial incentive, and now reaches a maximum level after four years from 2018/19 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, which may be raised further for 2019/20, so the Grant will only be paid on growth in excess of 0.4% each year which will further reduce the grant as each new year in the rolling four years period will be lower (as subject to the threshold) compared to each old year.

In July MHCLG stated that "*2019-20 represents the final year of funding agreed through the Spending Review 2015. In light of this, it is the Government's intention to explore how to incentivise housing growth most effectively, for example by using the Housing Delivery Test results to reward delivery or incentivising plans that meet or exceed local housing need".*

As a result of this statement no New Homes Bonus Grant has been assumed for 2020/21.

Part of the national reduction in New Homes Bonus was to part fund the new **Improved Better Care Fund** for adult social care. MHCLG have projected that the grant will be £3.7m in 2018/19 and £6.5m in 2019/20. For the purposes of this Plan it has been assumed that this entire grant is allocated to fund demand and cost pressures, including inflation, within adult social care. In addition the **Chancellor in the 2017 Spring Budget did announce (temporary) support for adult social care of £2b to be spread over three financial years** on a reducing balance. Torbay's share of this funding is £2.4m in 2018/19 and £1.2m in 2019/20. For this plan it is assumed that any of this additional funding will be spent exclusively on adult social care. As with other grants the future allocation of this grant from 2020/21 under the new funding formula and a 75% NNDR scheme is uncertain.

The Council will continue to explore all other opportunities for further grant funding building upon opportunities such as Town Deals, Housing Growth Support, Local Enterprise Partnership, Local Sustainable Transport Grants and other opportunities as they arise. Whilst these areas may provide access to further sources of income they are unlikely to mitigate the decrease in grant in future years and the impact this will have upon all services, particularly discretionary services. Some funding requires an element of "match funding" by the Council.

Income Assumption – Council Tax

Council Tax income is dependent upon a number of 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 1% and 0.5% from changes to Council Tax exemptions for 2019/20 and 0.75% across all other years of the plan has been assumed.

Where councils have been able to collect outstanding Council Tax in a following year(s), this income falls into the Collection Fund and is applied as part of the Council's overall income in the financial year following collection. For 2018/19 and future years an estimate of £1.7m for each year will be applied from the fund to the revenue budget; i.e. the collection fund surplus.

In 2018/19 the Council set a rate of £1,459.40 Council Tax per Band D property a rise of 5.99% which was a 2.99% rise for council functions and 3% 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 2.99% in 2019/20 and 1.99% in future years. The actual tax rise is approved by Council each year.

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

	2018/19	**2019/20 Estimate**	**2020/21 Estimate**	**2021/22 Estimate**
Council Tax Base	44,866	45,539	45,880	46,224
Council Tax Level (Band D)	£1,459	£1,503	£1,533	£1,563
Council Tax Rise - %	5.99%	2.99%	1.99%	1.99%
Council Tax Income	£65.5m	£68.4m	£70.3m	£72.2m

Table last updated 20 August 2018

In 2018/19, Torbay had the lowest Band D Council Tax in Devon at £1,731.69 including the Adult Social Care, Fire and Police precepts, but excluding parish and town council precepts. A summary of other local Council's Band D rates are as follows:

	Torbay (Unitary council)	Plymouth (Unitary council)	Exeter (City Council)	South Hams (District Council)	Teign-bridge (District Council)
District Council	-	-	150.05	160.42	165.17
Devon County (including Adult Social Care precept)	-	-	1,331.19	1,331.19	1,331.19
Total including Adult Social Care Precept	**1,459.40**	**1,470.38**	1,481.24	1,491.61	1,496.36
Fire & Police	272.29	272.29	272.29	272.29	272.29
Band D (excluding parish precepts)	**1,731.69**	**1,742.67 +0.6%**	**1,753.53 +1.3%**	**1,763.90 +1.9%**	**1,768.65 +2.1%**

Table last updated 2 March 2018

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 RPI linked to changes in the multiplier or 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. The multiplier is linked to September RPI which is likely to be an increase of around 2%. From 2019/20 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 2020/21**. Not now expected to be a 100% scheme as this would require primary legislation where as a 75% scheme would not. When the change in funding happens it will be fiscally neutral with RSG removed completely, other grant funding being reduced and more responsibilities being passed to Councils. Based on NNDR pilot areas (such as Cornwall Council) the grant funding that may will be withdrawn to balance the higher level of NNDR income is the Public Health Grant.

It is unclear how MHCLG will allocate 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 2020/21 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.

In February 2017 MHCLG have released their 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 2020/21
- NNDR increases/decreases kept/funded by Councils in a five year period
- **Every five years a “partial 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 calculations to go
- New, as yet unidentified, incentives for NNDR pools (with other Councils)
- New, as yet unidentified, incentives for **Local Growth Zones** (with other Councils)
- Sharing or appeal risk, shared between councils or risk held by MHCLG

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. Current indications are that the Council’s NNDR income is now above baseline by £0.8m primarily linked to the average downward movement in rateable values after the 2017 revaluation and the mix of reliefs part funded by central government by a “section 31” grant **. The MTRP assumes that this income will**

be lost in 2020/21 on the introduction of the new NNDR scheme. There is no indication of real growth therefore a “stable” position has been reflected over the period of the plan; however the level and value of appeals is continuing to be a major uncertainty.

Where councils have been able to collect outstanding NNDR in a following year(s) and/or NNDR income was lower than expected, this surplus/deficit falls into the Collection Fund and is applied as part of the Council’s overall income/cost in the financial year following collection. For future years no surplus or deficit has been forecast.

NNDR Appeals are now based on rateable values from the 2017 Revaluation which may result in a reduction in appeals as the overall rateable value in Torbay did fall by 6%. The Valuation Office who continue to deal with appeals have introduced new appeal process including a “Check and Challenge”. As at August 2018 the Council has still not had sufficient information from the Valuation Office to make reliable estimate of appeals therefore the Council’s NNDR appeals provision will be based on an MHCLG central assumption of national appeal levels.

Torbay along with all other councils in Devon submitted a bid to be a Devon-wide **100% NNDR pilot area for 2018/19**. This bid was accepted and for 2018/19 Torbay will have a **“Minimum Funding Level”** of £1.5m of NNDR income from this pilot. The Minimum Funding Level is based on the Council’s NNDR baseline and is funded from growth in other Council areas in Devon which now retain 100%of NNDR growth rather than 50% of NNDR growth previously shared with MHCLG. **The pilot was announced for one year only**. In July 2018 MHCLG invited councils to submit new bids for 2019/20 but as a 75% NNDR pilot which reduces by half the gains from participating in a pilot. It is expected that the number of pilot areas will be reduced with increasing completion from other bids, therefore this Plan assumes the pilot will not continue in 2019/20.

If the NNDR pilot is not extended to 2019/20, the Council will expect to remain part of the Devon-wide Business Rate pool which has a financial benefit of approximately £0.5m per annum to the Council. (Note under 75% NNDR this incentive is likely to be removed in 2020/21 which will result in a loss of income for the Council).

If central government changes any aspect of the NNDR system, by changing reliefs 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.

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.

This Plan assumes an annual inflationary increase of 3% each year. 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. A number of the Council's Transformation Projects have the objective of increasing Council income.

The Council has established a £200m Investment Fund to purchase Investment Properties for generating income to support the Council’s overall financial position. The remit of this fund was expanded in February 2018 to include regeneration investments and to comply with MHCLG Statutory Guidance on Investments applicable from April 2018.

As at October 2018 the Council had purchased 8 properties with a total rental income of £8m and a net surplus of £2.8m per annum. The purchase of these type of properties is a different risk profile for the Council. The Council in its financial planning will need to regularly review the rent levels and the value of the assets themselves. Changes in both would have an impact on future income and expenditure for the Council.

4. Expenditure

The 2018/19 budget approved by Council in February 2018 provides the base position of the financial strategy. To some extent the estimation of expenditure pressures facing the Council are assessable. The starting point is clearly the 2018/19 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 2019/20 for staff based on the agreed 2019/20 pay scales followed by rises of 2% in each of the following years.

(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 such as electricity and gas. 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. The Council has already started to see higher inflation on some expenditure types.

(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 funding Town Centre Regeneration, 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 2020. No assumption on future changes have been included at this stage.

(f) Introduction by Central Government of a National Living Wage from April 2016 of £7.20 per hour (an increase from the national minimum wage of £6.50 per hour) that will rise to a minimum of £9.00 per hour by 2020 and potentially higher after that date. This will impact on Council staff and on Council suppliers, in particular Care Home providers, where in some cases the extra costs will be borne by the Council. For the Council a provision of £0.2m has been included in 2020/21 for the possible impact of pay differentials as the living wage rises to a level that then matches existing Council pay grades.

(g) The current financial pressures from social care in 2018/19 and previous financial years has put the Council's reserves under strain. The Councils general fund balance at 4.6m (4.1%) of net budget is low compared to other unitary councils. The Chief Finance Officer continues to recommend that the **Comprehensive Spending Review reserve balance is maintained at a balance of £2m.** If this balance is forecast to reduce below this level a provision to increase this reserve will be included in future year budget proposals.

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 the Council website.
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 0.75%, (450 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 2020/21 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). These exclude adult social care pressures which are assume to be met from the Improved Better Care Fund allocations and any Adult Social Care Council Tax "precept" which has to be spent on adult social care services.

There are short term risks to achieving the approved budget reductions for services. The budget reductions identified for 2018/19 are challenging for all services and there is an underlying risk that these will not be fully achieved.

There is 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 additional funds of £3.0m were included in the 2018/19 budgets for safeguarding pressures. (**As at June 2018 there was 358 children looked after, a 20% increase** from 293 children looked after in December 2017). Linked to the forecast overspend on this service in 2018/19 from the rising demand and costs a further £3.3m (or 10%) has been added to the 2019/20 budget. A specific £0.5m has been included in the Plan for 2020/21 and 2021/22 for additional service demand.

The service spends significantly above its statistical neighbours which are directly linked to the higher than average number of childcare cases. Council has approved a Children's Service Medium Term Financial Strategy in February 2017.

Within the schools funding allocation from Department of Education (the Dedicated Schools Grant - DSG) there is a significant budget pressure (£2m predicted overspend in 2018/19) 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 schools "block" to support higher needs in 2018/19. In addition the 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. In October 2018 Schools Forum have now agreed a package of measures in addition to supporting the Council's request to Department of Education to move funding from schools to higher needs (A "disapplication request"). This positive action should enable a balanced budget to be set for the Higher Needs service in 2019/20 but does not, at this stage, address the issue of the accumulated deficit of £3m. It is clear that this financial pressure not a direct cost to the Council but will ultimately need to be funded from the DSG grant.

Within childrens' services there is uncertainty over the future of the Troubled Families Grant from 2020/21 and some elements of Special Education Needs funding. At this stage an indicative pressure of £0.4m has been included as if funding goes there are some parts of this services that will need to continue.

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 now paying, under the revised Risk Share Agreement, a higher annual contract sum with no exposure to a risk share of any overspend on the total ICO financial position. It is essential for the Council to continue planning, with its partners, for the contract and risk share agreement that will be applicable from October 2020 when the current arrangement ends. **The financial impact of any increased council contribution to the Risk Share in 2020/21 after a five year "fixed" period could be significant.** This impact is closely linked to the future allocations of the Improved Better Care Fund. As a result no implications of this has been included in the Plan at this stage.

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.

The Council's **contract with TOR2 expires July 2020**. The Council continues to review its options for the delivery of £15m of services currently provided by TOR2. The current contract was agreed in 2010 therefore the cost and level of the new service could be significantly different which will impact on future year budgets. In particular there could be a requirement for investment in both the initial operation of the company in Council ownership and in the medium term from a need to replace TOR2 vehicles and plant.

Changes to Council Functions and Initiatives

There are a number of changes in local government functions that will be included in the Council's financial planning. A number of changes are listed below. Some of these have already come into effect but will continue to impact on 2019/20 and future year budget setting process.

Change in Functions	Description	Timing
Academy Schools	Transfer of schools	April 2011, ongoing.
Housing Benefit	Transfer to Universal Credit	Implementation from September 2018

In addition there are a number of initiatives being implemented by the Council which will also be included in the Council's financial planning. A number of changes are listed below.

Initiative	Description	Timing
Youth Trust	New body to run Youth Services	2018/19
Adult Social Care	Review of Council options for Adult Social Care from October 2020	October 2020
Devolution of function from Central Government	The Council with other partners within the Local Enterprise Partnership (LEP) have submitted expressions of interest to central government.	To be confirmed
Libraries	Transfer to new provider – Libraries Unlimited	April 2018
Palace Theatre	Transfer to new provider – Jazz Hands	May 2018
Toilets	Transfer to new provider - Healthmatic	May 2018/19
Childrens' Services	New shared Director for Childrens Services with Plymouth City Council	April 2018
Spatial Planning	Shared Service with Plymouth City Council	2018/19
IT Services	Review of options for provision of IT services	2018/19
TOR2	Review of Council options for services provided by TOR2 from July 2020	July 2020
Adoption Services	Transfer to Devon County Council under a partnership arrangement	Autumn 2018
Transformation Programme	A programme of initiatives to help deliver the future year savings required	Ongoing

Council Owned Companies

The Council owns or has a shareholding in a number of companies, these include three housing related companies and four TDA related companies, Careers South West (25% ownership), TOR2 (currently 20% ownership) and Oldway Mansion Management Company. As the Council is owner of these companies and will consolidate these companies in its Group Accounts (if material), 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.

5. 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. 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 takes into account 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 2018/19 Review of Reserves report was approved by Council in February 2018 and the draft 2019/20 review will be issued in November 2018.

The main pressures on reserves are:

- Financing any 2018/19 overspends in particular in social care
- Financing any future year overspends in particular in social care
- 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

These risks are significant and the Council needs to ensure it has an appropriate level of reserves. The current financial pressures in children social care and reflecting the current 2017/18 forecast financial position has put the Council's reserves under strain.

The Chief Finance Officer continues to recommend that the **Comprehensive Spending Review reserve balance is maintained at a balance of £2m.** If this balance is forecast to reduce below this level a provision to increase this reserve will be included in future year budget proposals.

In addition, linked to peer feedback, the Council's **general fund reserve is identified as low.** As a result the MTRP should include £0.25m per annum to increase the balance to 5% of the Council's net revenue budget. However this has not been incorporated in the Plan at this stage.

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 under-estimates – primarily due to the 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 2019 review, new funding formula and impact of 75% NNDR retention, 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, with no sign of interest rates rising to provide an offsetting income stream
- 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 cost of social care both Childrens and Adults.
- Impact of major changes in Adult Social Care such as Care Act implementation and 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, in particular those funded from prudential borrowing where there is a known additional MRP and interest cost.
- Risk of higher than anticipated borrowing costs from rises in rate.
- Achievement of 2018/19 and future year budget savings
- Financial Performance of the Integrated Care organisation and the Council's risk exposure.
- 2019 Pension actuarial Review
- 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 Sustainability and Transformation Plan on Torbay
- Impact from the TDA and its related companies expansion into new trading areas
- Impact from the activities of the new Housing Companies
- Impact of major schemes linked to Town Centre Regeneration
- Impact of Council ownership of TOR2
- Replacement of Children's social care management system
- Impact of August 2018 Ofsed judgement of "inadequate" for children's social care

Appendix 1 – Timetable

The key dates in relation to the Council's 2019/20 budget setting process are:

Revenue Budget Setting Process		Timeline
2019/20 Budget Development	Elected Mayor & Chief Executive	Spring 2018 – October 2018
2019/20 Elected Mayor's Budget Proposals	Elected Mayor	November 2018
2019/20 Budget Proposals Consultation	Elected Mayor	November to December 2018
2019/20 Finance Background Reports available	Overview & Scrutiny Board	By November 2018 for (a minimum of) six weeks
Local Government Finance Settlement	Department of Communities and Local Government	December 2018
2019/20 Budget Approved	Council	February 2019
2019/20 Council Tax Set	Council	February 2019
2019/20 Budget Digest published with MTRP update	Chief Finance Officer	March 2019
2020/21 & 2021/22 Budget Development	Elected Mayor & Chief Executive	Ongoing