



April 2019 Update

Medium Term Resource Plan

Creating a prosperous and healthy Torbay



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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

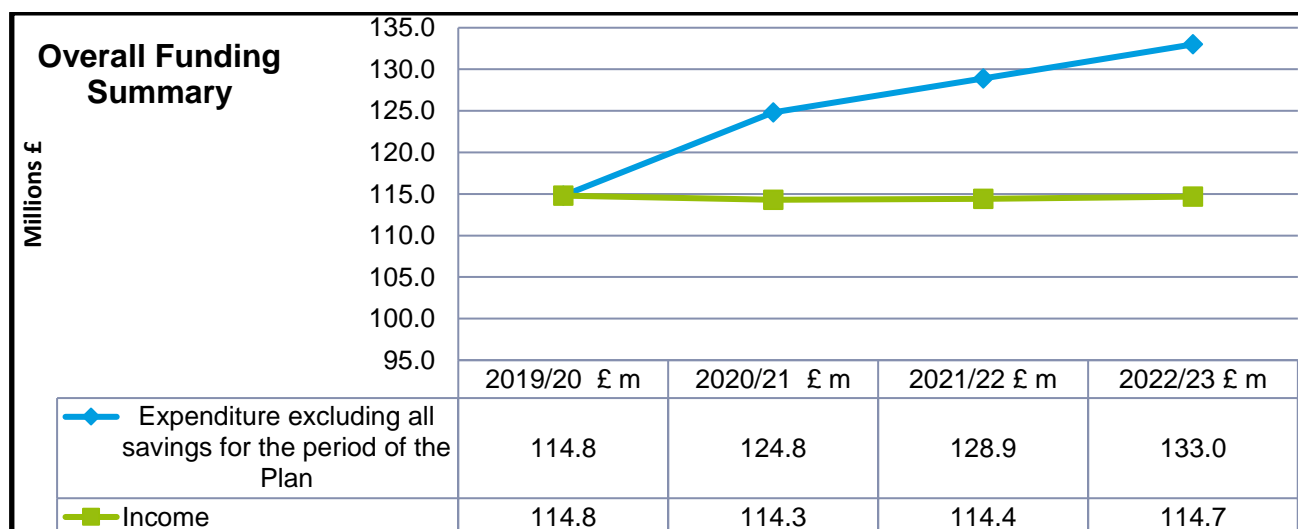
Plan last updated on 9 April 2019

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 2019/20 approved budget. This takes account of the income and expenditure pressures arising from the assumptions which are detailed within this Plan.

Revenue Budget	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Estimated Sources of Finance (Revenue Support Grant, New Homes Bonus, National Non Domestic Rates, Council Tax & Collection Fund)	(111.4)	(110.9)	(111.0)	(111.3)
Investment Fund Net Income	(3.4)	(3.4)	(3.4)	(3.4)
Sources of Finance Including Investment Fund	(114.8)	(114.3)	(114.4)	(114.7)
Net Expenditure budget				
Net expenditure base budget brought forward	114.8	114.8	114.3	114.4
In year movements e.g. known changes and service investments	(0.6)	2.6	1.0	1.0
Changes in Service Specific Grants and Income	(1.3)	2.4	0.1	0.1
Inflation and pay award	1.8	2.0	2.0	2.0
Children's Services	4.4	1.0	1.0	1.0
Adult Social Care	0	2.0	0	0
Budget Proposals & Transformation	(4.3)	0	0	0
Total Net Expenditure budget	114.8	124.8	118.4	118.5
Additional Savings required in year to balance budget	0	(10.5)	(4.0)	(3.8)
Total Net expenditure budget after savings	114.8	114.3	114.4	114.7
Savings required – Cumulative position:	0	(10.5)	(14.5)	(18.3)
<i>Savings Identified – April 2019</i>	-	0	0	0
<i>Balance of savings to be identified – April 2019</i>	0	(10.5)	(14.5)	(18.3)

Table last updated 05 April 2019



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 develops its priorities and new Corporate Plan following the 2019 election.

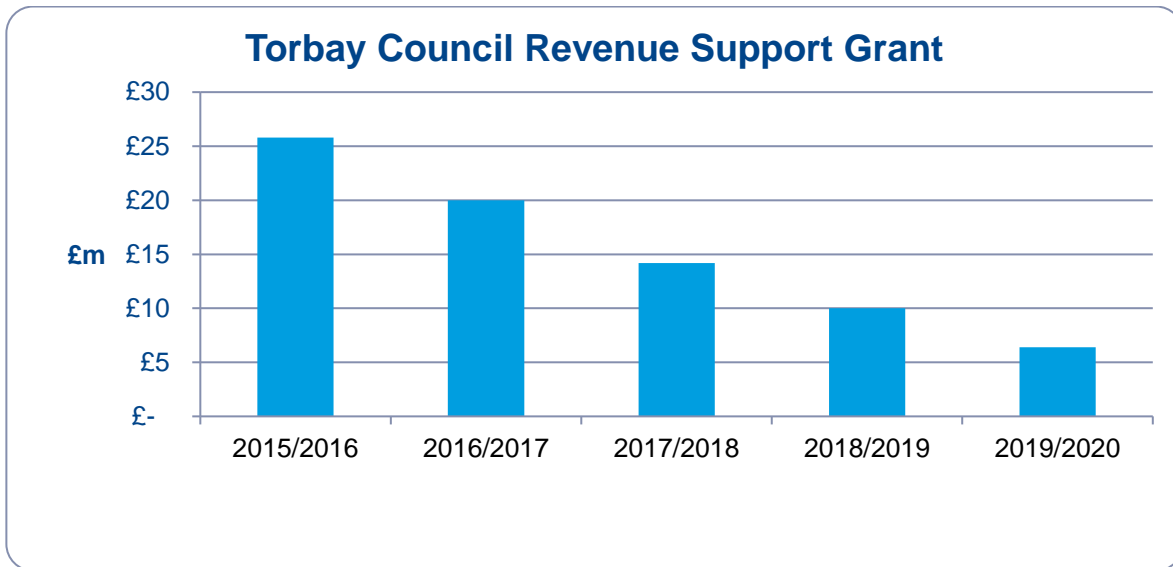
It is now estimated that the Council will have to close an **estimated budget gap of £18.3m over three years** between 2020/21 and 2022/23, which is based upon existing service demands and “normal” budget pressures including inflation, demand pressures and income assumptions. The Council’s Senior Leadership Team will work with the Leader of the Council and the Cabinet to identify options for proposing a balanced budget over this period. 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 costs of, and demand for children’s social care.

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.** For 2020/21 the Cabinet will be supported to develop proposals early into their term, and it is anticipated that their proposals to deliver a balanced budget will be published in October 2019.

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 2019/20 was finalised in February 2019. The Settlement was made in light of the Chancellor’s **2018 Budget** which contained a number of one-off funding announcements for adult social care, highways, disabled facilities grants and for social care generally. Any additional funding is welcome and the specific allocations for Torbay have been included in the Council’s financial monitoring and budgeting. However as the announced funding is one-off in nature it cannot be used to support the Council’s base budget in future years.

This settlement, which was the last year of a four year settlement has seen Torbay Council’s Revenue Support Grant (RSG) reduced from £27m in 2015/16 to £6m in 2019/20. This, 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. .



In addition, the Government confirmed its intention to allow **councils to keep 75% of NNDR** from 2020/21. When this change in funding happens, RSG will be removed completely, whilst other grant funding will be reduced and, possibly, more responsibilities will be 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. This therefore further contributes to the uncertain period for Local Government.


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 meaning that other departmental budgets will rise, in total, by inflation only. It is noted that the Spending Review “will ensure that funding is directed to the Government’s priorities within that overall envelope”. Therefore there remains ongoing uncertainty over the future allocation of funding to local government, especially as for every department that gains within “that overall envelope” (such as defence or schools) then other departments will lose funding.

In summary, the future funding uncertainties include:

- The impact on total local government spending from the Spending Review 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 that seen over the past four years,
- The impact on total funding available for local government spending resulting from the extra £20b of additional funding for the NHS,
- The impact on total funding available for local government spending from the uncertainty of the terms and financial impact of the “Brexit” negotiations,
- MHCLG have announced a review of the allocation of resources between councils from 2020/21 which will result in a new funding formula. 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 2020/21,

- The method of restating councils' funding on the move to 75% NNDR retention in 2020/21. 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 to Council income such as changing reliefs,
- The move to change NNDR increases from RPI to the (usually) lower CPI from 2020/21 will reduce income,
- 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,
- No funding announcements have been made for 2020/21 onwards for a number of service grants, such as Troubled Families, SEN and Public Health,
- 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 a number of changes to key "factors":

Key "Factors" for 2020/21	Impact of change		
	Best case £m		Worse case £m
change in children social care spend	(£2m)	£1.0m	£4m
change in adult social care spend	(£2m)	£2.0m	£6m
change in local government funding	(£3m)	£1m	£5m
change in Council's funding formula	(£4m)	£0m	£4m
Change to Council Tax referendum limit	(£2.1m)	(£2.1m)	(£1.4m)
Removal of New Homes Bonus Grant	£0m	£1m	£1m
Removal of Improved Better Care Fund	£0m	£0m	£7m

Historically Councils were able to raise Council Tax by 1.99%, with rises of 2% or over being the subject of a local referendum. However for 2018/19 and 2019/20 the limit was raised to 2.99%. In addition, councils like Torbay with social care responsibilities, were 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. For planning purposes this Plan **assumes a Council Tax increase of 2.99% in 2020/21 and 2.99% 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 different level then this would increase the funding gap. As a guide each 1% change in Council Tax equals £0.7m of income each year.

There is a continuing financial impact of **pressures within Children's Services** due to caseload and complexity of cases. Spend at the levels of recent years is unsustainable and for 2019/20 the Council has made a significant budget increase of £4.4m (14%) to this service to rebase the budget to a sustainable level. This increase is in the light of the forecast outturn for 2018/19 of £5m in excess of planned budget. The service spends significantly more than its statistical neighbours directly linked to the number of Children Looked After and a reduction in spend to be closer to this level remains still fundamental to the Council achieving a balanced budget over the next few years. An updated, targeted,

Children's Services Medium Term Financial Strategy will be in place during 2019 and this document will provide a base for future year budget saving options for this service. The Council continues to aim to maximise the benefits of working with Plymouth City Council on this service under the current arrangement for a Joint Director of Children's Services.

Adult Social Care is still the Council's largest area of spend. The Council's current arrangements see an integrated health and social care service run by the Integrated Care Organisation (ICO) with the Council paying, under the revised Risk Share Agreement (RSA), a higher 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, for the contract and risk share agreement that will be applicable from April 2020 when the current arrangement ends and, in particular, to determine the level funding for Adult Social Care which will be required.

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 Partnership (STPs). In particular, recognising that the local Clinical Commissioning Group for Torbay and South Devon has now been merged into one Devon-wide body.

The budget challenges for future years cannot be overstated. With about 65% 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 funding issues outlined above result in a net cash reduction in funding. Therefore any spending pressures (such as from increased demand for services, or decisions taken to increase services provided), inflationary pressures or a reduction in other grants or income will be an additional pressure which will need to be funded.

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 when 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 was undertaken during the autumn of 2018 and reported to Council in January 2019.

The reoccurring key message from these reviews 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.

The changes in the Council’s funding arrangements combined with demand and inflationary pressures has required the Council to make budget reductions of approximately £82 million over the past seven years **to set a balanced budget** with over £10m planned for in 2020/21 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	Est.	10	92
2021/22	Est.	4	96
2022/23	Est.	4	100

Table last updated 05 April 2019

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 based on a “core service offer”.

Based on the proposed changes from April 2020 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 bring about taxbase growth** in both these areas, subject to the five year partial reset of NNDR income.

In conclusion, there are a number of significant uncertainties and as these become clearer, will inevitably lead to revision of the MTRP during 2019. It is possible the Council will not know its funding allocation for 2020/21 until late December 2019. 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. Income

Central Government “General” Funding

The **Local Government Finance Settlement** for 2019/20 was finalised in February 2019. There were 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 there has been a £6bn or 56% reduction in MHCLG funding for local government over the past decade. 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 reduced 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 and have started a process of consultation on the formula design.

New Homes Bonus Grant is an incentive driven grant linked to housing growth. However the funding for this distribution is primarily not “new money” but money recycled from reducing Revenue Support Grant paid to councils. 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, 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 the light of the following statement no New Homes Bonus grant has been forecast for 2020/21.

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”.

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 Council for this plan is assuming:

- 1) That the impact of the Spending Review and new Funding Formula combined with an initial level of transitional protection is a reduction of £2m in 2019/20 and then a further £3m reduction in both 2020/21 and 2021/22.
- 2) That in introducing the new NNDR system in April 2020, 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.
- 3) No New Homes Bonus Grant has been assumed for 2020/21.

- 4) Gain of £0.5m from the Devon wide NNDR “Pool” will disappear when NNDR levy payments are stopped from April 2020.

The table below provides an estimated position on future funding levels over the next four years, which includes an assumed overall reduction in funding. 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:

	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2021/22 Estimate
	£'000	£'000	£'000	£'000
Revenue Support Grant	6.4	0	0	0
New Homes Bonus Grant	1.0	0	0	0
Business Rate Retention – Council Share	14.4	29.0	29.5	30.1
NNDR Top Up Grant	14.8	9.1	6.2	3.3
Section 31 – NNDR New Burdens Grant	4.4	0	0	0
NNDR Baseline – Sub Total	-	38.1	35.7	33.4
Council Tax	68.7	71.1	73.6	76.2
Collection Fund Surplus/(Deficit)	1.7	1.7	1.7	1.7
Total	111.4	110.9	111.0	111.3

The changes to the calculation of the Council's funding from April 2020 will be considerable (and complicated):

- 1) Based on a new Funding Formula, the Council will have a calculated “**relative needs share**” (or funding assessment) which is likely to shown as a fraction of 1, where 1 is the total need for all English councils.
- 2) This calculated “relative needs share” will be applied to the total amount of funding identified for local government in the Spending Review 2019. This will give Torbay Council's relative needs share as a value in £m.
- 3) Central government will assess Torbay's ability to raise “**resources**”, i.e Council tax income. This assessed level of council tax income will be deducted from the assessed “relative needs share” £m to result in a value for **Torbay's NNDR income baseline**.
- 4) Central government will assess Torbay's actual ability to raise NNDR under a 75% scheme. This assessed level of NNDR income will then be deducted from the assessed NNDR income baseline £m to result in a value for Torbay's NNDR Top Up grant. Councils like Torbay will receive a **NNDR Top Up grant if their “needs share” exceeds the total of council tax and 75% of NNDR income**. If income exceeds need then a “tariff” is paid.
- 5) Central Government changes in funding in the future will be derived from the total figure in the Spending Review for each year. If that, say, reduces the amount of funding for Torbay it is likely that it will be NNDR Top Grant that will be adjusted.
- 6) There is likely to be transitional scheme whereby the impacts of the changes in 2020/21 compared to the 2019/20 funding level will be phased in, thus delaying the full impact of any funding reductions.

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 “ring fenced” grant in excess of £9m in 2019/20. This grant has been reducing 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. If the public health grant is, from April 2020, 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 a number of other smaller grants. The DSG will reduce when more schools convert to academies; the housing benefit grant will continue to reduce with the expansion of universal credit.

Part of the national reduction in New Homes Bonus was to part fund the **Improved Better Care Fund** for adult social care. The grant is £7.7m in 2019/20. The grant is allocated to fund demand and cost pressures, including inflation, within 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. Some funding may require an element of “match funding” by the Council.

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 0.5% across all years of the plan has been assumed.

Where councils are able to 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. For 2019/20 and future years an estimate of £1.7m for each year has been assumed; i.e. the collection fund surplus.

In 2019/20 the Council set a rate of £1,503.04 Council Tax per Band D property a rise of 2.99%.

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 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.

	2019/20	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Council Tax Base	45,700	45,928	46,158	46,388
Council Tax Level (Band D)	£1,503	£1,548	£1,594	£1,642
Council Tax Rise - %	2.99%	2.99%	2.99%	2.99%
Council Tax Income	£68.7m	£71.1m	£73.6m	£76.2m

Table last updated 8 April 2019

In 2019/20, Torbay had the lowest Band D Council Tax in Devon at £1,801.84 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	-	-	155.05	165.42	170.17
Devon County	-	-	1,384.29	1,384.29	1,384.29
Total	1,503.04	1,514.34	1,539.34	1,549.71	1,554.46
Fire & Police	298.80	298.80	298.80	298.80	298.80
Band D (excluding parish precepts)	1,801.84	1,813.14 +0.6%	1,838.14 +2.0%	1,848.51 +2.6%	1,853.26 +2.9%

Table last updated 8 April 2019

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 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. 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 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 RSG will be removed completely, other grant funding being reduced and, maybe, 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 but gain from a higher “pot” to be allocated – an estimated net £0.5m loss in funding.

In December 2018 MHCLG 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 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, 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 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. Current indications are that the Council’s NNDR income is now above baseline 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.

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.

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. It has been assumed that all 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.

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 March 2019 the Council had purchased 9 properties with a total rental income of £9m and a net surplus of £3.4m per annum. In addition the Council has agreed two forward purchase property deals to be completed in 2019/20 and agreed a £9m loan to a hotel development in Torbay. 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 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 2019/20 budget approved by Council in February 2019 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 2019/20 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 2020/21 for staff 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. 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 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. The actuary has advised that employer contribution rates could rise by 2/3% with typical councils having a 1% rise. Torbay has assumed a 1% rise.
- (f) Introduction by Central Government of a National Living Wage that will rise each year. 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 2019/20 and previous financial years has put the Council's reserves under strain. The Council's 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**.

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 0.5%, (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 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).

There are short term risks to achieving the approved budget reductions for services. The budget reductions identified for 2019/20 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 budget and a further £4.4m in 2019/20 budget. **(As at March 2019 there was 361 children looked after, a 23% increase** from 293 children looked after in December 2017). A specific £1.0m has been included in each year of the Plan 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. In addition due to the national pressures on children's social care and the lack of supply of suitable placements and experienced staff, the cost of each placement is increasing. In addition there is 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 (£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. For 2019/20 Schools Forum have 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") which was approved. This positive action should enable a balanced budget to be achieved 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 children's 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 £0.2m 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. Given the significant uncertainty over both the future values (if any) of the Improved Better Care Fund and the future of the

Risk Share Agreement it is very hard to forecast what the costs of this service will be in 2020/21. However to reflect that the costs maybe higher an allocation of £2m has been included for 2020/21.

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 and Council agreed the option of establishing a new company and has agreed the purchase on new refuse vehicles. 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 a need to replace TOR2 vehicles and plant.

The Plan includes a number of other service related issues including, loss of housing grants in April 2020, ongoing investment in essential IT replacement and higher service costs of registration of electors and the coroner's service.

Changes to Council Functions and Initiatives

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	2019/20
Adult Social Care	Review of Council options for Adult Social Care and Risk Share Agreement	April 2020
Council Re design	Review customer and business process throughout the Council	2019/20
TOR2/TOR3	Review of Council options for services provided by TOR2 from July 2020	July 2020
Community Governance Review	Potential establishment of Town Councils in all parts of Torbay	April 2020
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 five 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 2019/20 Review of Reserves report was approved by Council in February 2019.

The main pressures on reserves are:

- Financing any 2019/20 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 ongoing financial pressures in children social care 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 £0.5m per annum to increase the balance to 5% of the Council's net revenue budget.

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 over 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 and the potential changes in adult social care and services currently provided by TOR2, 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 cost of social care both Children's and Adults.
- 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, 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 2019/20 and future year budget savings
- Financial Performance of the Integrated Care Organisation and the Council's adult social care cost.
- 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 2020/21 budget setting process are:

Revenue Budget Setting Process		Timeline
2020/21 Budget Development	Leader & Chief Executive	June 2019 – October 2019
Spending Review and new Funding Formula Consultation	HM Treasury and MHCLG	Summer and Autumn 2019
2020/21 Leader’s Budget Proposals	Leader of Council	October 2019
2020/21 Budget Proposals Consultation	Leader of Council	November to December 2019
2020/21 Finance Background Reports available	Overview & Scrutiny Board	By November 2019 for (a minimum of) six weeks
Local Government Finance Settlement	MHCLG	December 2019
2020/21 Budget Approved	Council	February 2020
2020/21 Council Tax Set	Council	February 2020
2020/21 Budget Digest published with MTRP update	Chief Finance Officer	March 2020
2021/22 & 2022/23 Budget development	Leader of Council & Chief Executive	Ongoing