TORBAY COUNCIL

Medium Term Resource Plan

20 October 2020

Budget 2021/22

Contents

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 2020/21 budget and the impact of COVID19 on the 2021/22 budget. This takes account of the income and expenditure pressures arising from the assumptions which are detailed within this Plan.

Revenue Budget	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**	**2023/24 £m**
Estimated Sources of Finance (Revenue Support Grant, National Non Domestic Rates, Council Tax & Collection Fund)	(115.9)	(118.2)	(113.4)	(115.0)
Less impact of COVID 19	0	5.0	0	0
Sources of Finance	**(115.9)**	**(113.2)**	**(113.4)**	**(115.0)**
Net Expenditure budget Net expenditure base budget brought forward	110.4	115.9	113.2	113.4
In year movements e.g. known changes and service investments	4.6	0.6	1.0	1.0
Changes in Service Specific Grants and Income	(3.9)	0.5	0.9	0
Inflation and pay award	2.0	1.9	2.0	2.0
Children's Services	9.8	0	0	0
Adult Social Care	1.4	0	0	2.0
Impact of COVID 19 on budget	0	2.7	0	0
Investment in Housing and Bus Subsidy	0	0.4	0	0
Budget Savings, Proposals & Transformation	(8.4)	0	0	0
Total Net Expenditure budget	**115.9**	**122.0**	**117.1**	**118.4**
Additional Savings required in year to balance budget	**0**	**(8.8)**	**(3.6)**	**(3.4)**
Total Net expenditure budget after savings	**115.9**	**113.2**	**113.4**	**115.0**
Savings required – Cumulative position:	***0***	***(8.8)***	***(12.8)***	***(16.2)***
Savings Identified – October 2020	*-*	*(6.2)*	*0*	*0*
Balance of savings to be identified – October 2020	*0*	*(2.6)*	*(6.2)*	*(9.6)*

Table last updated October 2020

	2020/21 £ m	2021/22 £ m	2022/23 £ m	2023/24 £ m
Expenditure excluding all savings for the period of the Plan	115.6	122.0	125.9	130.9
Income	115.6	113.2	113.5	115.1

2. Overview

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

It is now estimated that the Council will have to close an **estimated budget gap of £15.8m over three years** between 2021/22 and 2023/24, which is based upon existing service demands and "normal" budget pressures including inflation, demand pressures and income assumptions. The Council's Senior Leadership Team will work with the Cabinet to identify options for proposing a balanced budget over this period. These reductions have to be set in context of the Council having to absorb the ongoing financial impact of COVID-19 and its impact on the local economy and our residents.

This Plan summarises the expected income and expenditure position over the next three years. **It identifies the size of the funding "gap" without identifying any potential options to close the same.** For 2021/22 the Cabinet will be supported to develop proposals to deliver a balanced budget which will be published in October 2020.

The global pandemic COVID-19 has had a fundamental impact on the community of Torbay from the health impact of the virus itself to the significant impact of the lockdown on both the community's behaviour and the impact on the local economy. The financial implications of this on the 2021/22 budget is outlined in detail in a specific section of the Plan.

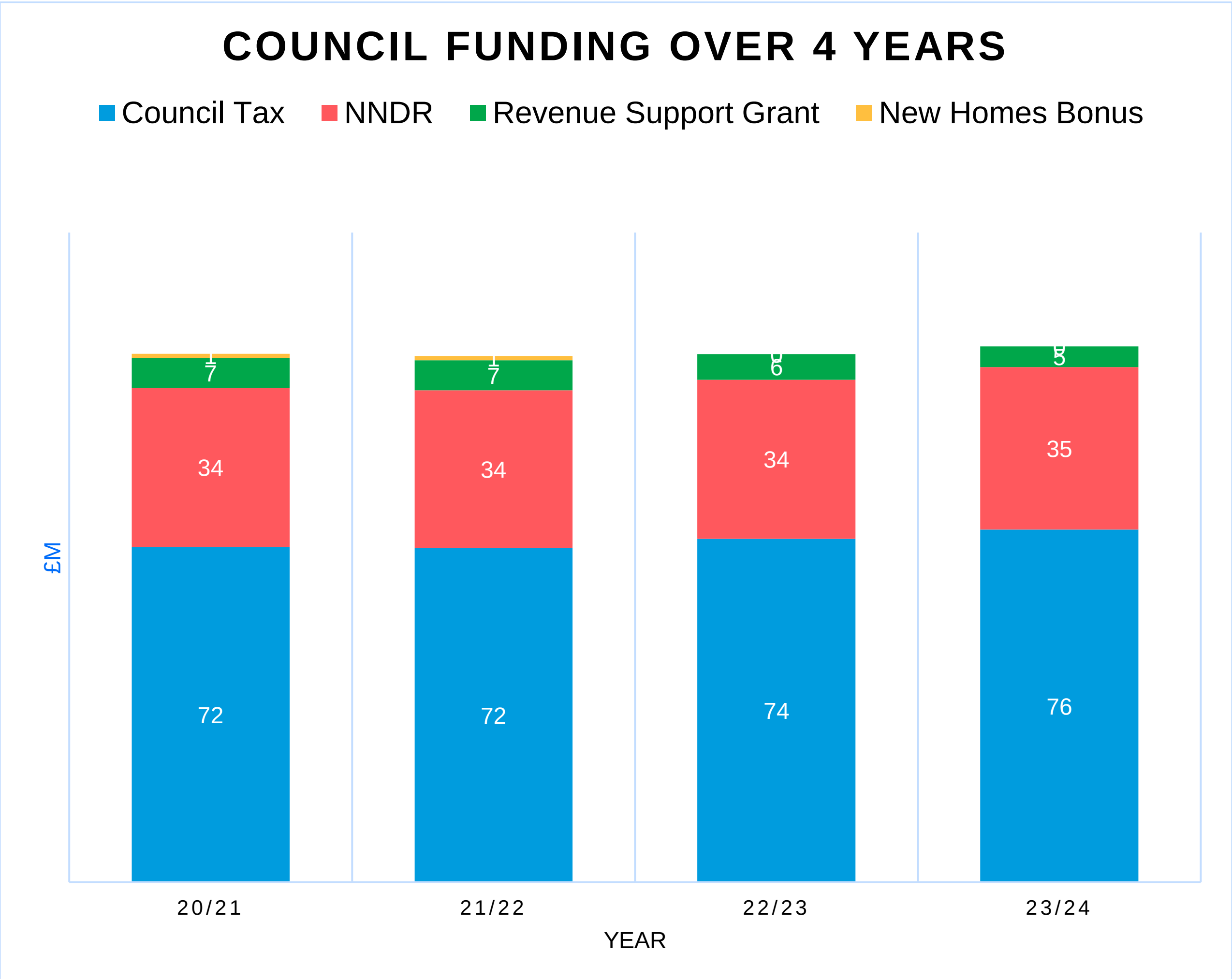
The Council's Capital Plan, Capital Strategy, Asset Management Plan and the Treasury Management Strategy are other key financial planning documents and should be read in conjunction with this Plan. These documents are available on the Council's website at www.torbay.gov.uk/budget

The **Local Government Finance Settlement** for 2020/21 was finalised in January 2020. The one year 2019 Spending Round Settlement contained a confirmation of no reduction in local government funding, an inflationary rise in National Non Domestic Rates (NNDR) and Council Tax, additional grant funding for social care and the continuation of grants received in 2019/20 for one more year.

In July 2020 HM Treasury announced that there would be a **four year Spending Review in autumn 2020** for the following four financial years. At this stage it is unclear what the impact on funding for local government will be given the massive national spend required to mitigate the impact of COVID-19. The HM Treasury press release for the Spending Review is included as Appendix Two for information as it outlines the Government's priorities and refers to re prioritisation of resources linked to outcomes.

Linked to COVID-19, the review of funding allocations between councils and the impact of the proposed NNDR retention system has now been delayed again to be introduced in 2022/23 at the earliest. The Council has a number of specific grants where there are no announcements for 2021/22 yet; these include the Improved Better Care Fund (IBCF), Troubled Families Grant and Flexible Housing Grant. The lack of confirmation of grants beyond 2021/22 and the unknown impact of the (four year) Spending Review 2020 leads to an uncertain period for local government.

The table below shows that the Council is primarily reliant on Council Tax and NNDR income for its funding, which will increase if more funding is from NNDR under any new funding system. This move does present risks to the Council due to the potential variations in income which are now more acute due to the impact of COVID-19 on the local economy.



In summary, the future funding uncertainties include:

- The impact on total local government spending from the (four year) Spending Review 2020. Due to the ongoing and now significantly enhanced challenging fiscal position for central government, there could still be a target to reduce total spending in local government.
- Linked to the above, the ongoing impact of COVID-19 and its fundamental impact on both the local and national economy.

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

- The intention of the Ministry of Housing, Communities and Local Government (MHCLG) to introduce a new funding formula for the allocation of resources between councils although this is now delayed again to start in 2022/23. If Torbay's relative "need" has reduced since the last review compared to areas 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 2021/22.

- The method of restating councils' funding on the move to 75% NNDR retention in 2022/23. 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 or even a fundamental review of the NNDR system.

- The risk to the Council's NNDR income from the volume and value of NNDR appeals and the future income levels which are dependent on economic conditions and the strength of the high street against the rise of online shopping and now the impact of COVID-19.

- No funding announcements have been made for 2021/22 onwards for a number of service grants, such as Troubled Families and Flexible Housing Grant. The Adult Social Care grant has not been confirmed but it is expected to continue at least at its current level.

- No funding announcement or details have been made of a replacement system announced for New Homes Bonus Grant.

- No announcements have been made on the levels set for Council Tax rises to be subject to a referendum.

Given the above, the projected funding gap could be significantly impacted by a number of changes to key “factors”:

	Impact of change		
Key “Factors” for 2021/22	**Best case £m**	↔	**Worse case £m**
change in children social care spend	(£2m)	£0m	£4m
change in adult social care spend	(£0m)	£0m	£0m
change in local government funding	(£3m)	£0m	£3m
change in Council’s funding formula	(£4m)	£0m	£4m
Change to Council Tax referendum limit	(£2.1m)	(£1.4m)	(£0m)
Removal of Adult Social Care Grant	£5m	£5m	£0m
Removal of Improved Better Care Fund	£0m	£0m	£8m

Historically councils were able to raise Council Tax by 1.99%, with rises of 2% or over being the subject of a local referendum. Although the cap was raised above this in 2018/19 and 2019/20 the limit was reduced back down to 1.99% for 2020/21. 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% increases in both 2017/18 and 2018/19. For 2020/21 an additional 2% has been permitted and the approved budget included that option. For planning purposes this Plan **assumes a Council Tax increase of 1.99% in 2021/22 and 1.99% per annum for each subsequent year of the Plan. This is an officer assumption and any rise would need to be approved by Council.** If Council approved a lower Council Tax rise or MHCLG set the referendum limit at a 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.

Over a long period there has been a significant 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 2020/21 the Council, again, made a significant budgetary increase of £9.8m (25%) to this service to rebase the budget to a sustainable level. 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. Initial budget monitoring in 2020/21 is forecasting an underspend on this service which hopefully will be maintained. There is a risk that as a result of lockdown and the majority of children not at school for a period there could be an increase in caseload during the second half of 2020/21 which could impact on the budget for 2021/22.

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

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

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

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

The COVID impact on tax collection will result in a reduction in income in 2021/22 and in the following financial year there is an expected negative impact of the new funding formula and NNDR system. Therefore any spending pressures (such as from increased demand for services, or decisions taken to increase services provided), a reduction in other grants or income will be an additional pressure which will need to be funded.

The reoccurring message from external reviews is the **need to implement transformational and "re design" projects at pace** to realise the savings required in the short and medium term. As ever there is an ongoing need to focus on cost reductions/mitigation 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 £90 million over the past seven years **to set a balanced budget** with over £8m forecast to be needed in 2021/212 as shown in the table below.

Year		Value £m	Cumulative £m
2011/12		9	9
2012/13		9	18
2013/14		9	27
2014/15		12	39
2015/16		11	50
2016/17		12	62
2017/18		7	69
2018/19		7	76
2019/20		6	82
2020/21		8	90
2021/22	Est.	9	99
2022/23	Est.	4	103
2023/24	Est	3	106

Table last updated 5 August 2020

The Council must continue to explore new ways of delivering Council services. The Transformation and Redesign process 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 transform and delivery efficiencies, and as a contingency to plan for a reduction in services provided to customers over the short and medium term based on a "core service offer".

In conclusion, there are a number of significant uncertainties which, as these become clearer, will inevitably lead to revision of the MTRP during 2020 and into 2021. The Leader and Cabinet and senior officers will work on options should any budget reductions be required and will issue these for consultation and debate when appropriate.

3. Impact of COVID-19

The financial impact of COVID is constantly evolving during the 2020/21 financial year. At this stage the financial impact can only be estimated however a number of specific issues are emerging. **The estimated financial impact in 2021/22 of £7.7m is** based on the current COVID 19 position in Torbay, of which some may only be an issue in 2021/22 only. If there is a second or even a third wave of the virus that would impact on the forecasts as presented. The key issues are set out in the following paragraphs.

2020/21 overspend

As at quarter one 2020/21 the Council was forecasting an overspend of £5m which included £5m of a projected Collection Fund shortfall. Under Collection Fund accounting any in year deficit is “rolled” forward to the next financial year to be funded. In July 2020 MHCLG announced their intention to allow any Collection Fund deficit in 2020/21 to be spread over three financial years from 2021/22. **The impact on 2021/22 and the following two years is therefore £1.7m each year.** MHCLG have “hinted” that there may be some support for Councils for irrecoverable losses in the 2020 Spending Review however this has not been assumed at this stage.

As at July 2020/21 the Council wasn’t forecasting that it would need to use any of its general fund reserve or use an earmarked reserve for an alternative purpose.

Council Tax Support Scheme

This scheme is to support residents with their council tax bills that for a working age claimant is linked to their household income. Since March 2020 with the start of “lockdown” and its economic impact the number of claimants for this scheme has increased. As household incomes could be impacted once furlough schemes ends in October 2020 there could be a further increase in the number of claims. **These costs have been estimated at £0.750m (a 1% impact on total council tax income)**

Collectability of Council Tax

The Councils share of Council tax is over £72m a year. In 2020/21 to July the Council has seen a cash reduction of 10% (to end of July 2020) in its year on year collection of Council Tax which has been attributed to the impact of COVID19 and is part of the £5.2m 2020/21 overspend. **The ongoing impact on the collectability of council tax in 2021/22 due to the economic conditions has been estimated at 2% or £1.5m.**

Collectability of NNDR

The Councils share of Council tax is over £15m a year. In 2020/21 to July the Council has seen a cash reduction of 20% (to end of July 2020) in its year on year collection of NNDR which has been attributed to the impact of COVID19 and is part of the £5.2m 2020/21 overspend. **The**

ongoing impact on the collectability of NNDR in 2021/22 due to the economic conditions linked to 2/3rd of Torbay businesses in retail, leisure or hospitality has been estimated at 5% or £1.0m.

Leisure and Conference Centres

The Council has two outsourced contracts for the leisure centre at Clennon Valley and the Riviera Centre. (Albeit the Council now controls the Board of the Riviera centre). Both centres have seen a complete cessation of their income during “lock down” and are unlikely to achieve historic income levels for up to two years. As a result both centres are in financial difficulty **and £0.5m has been estimated as the deficit funding required in 2021/22 for the Riviera Centre and Clennon Valley.**

Supporting Homelessness

With the start of lockdown under the “Everyone In” initiative the Council accommodated an extra 140 clients resulting in a net increase in costs after housing benefit of £1m. While the service is seeking to accommodate the clients in permanent rented accommodation there is expected to be an increase in people requiring support in 2021/22 linked to the economic impact resulting in more homelessness. **This impact has been forecast at level similar to 2020/21 at £0.750m.**

Home to School Transport

The Council is responsible for providing home to transport for pupils that are eligible for support. A currently unresolved issue is the social distancing requirements that will have to be applied to pupil transport. These requirements could reduce the number of pupils per vehicle which could increase costs. It is possible any increased costs could be funded by a new government grant, however at this stage an **additional cost of £0.5m has been estimated for 2021/22.**

Service Income

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

Rental Income

The Council receives an income from its regeneration properties such as Fleet Walk, its Investment Fund properties such as Wren Park and from other Council properties owned within Torbay that are rented such as the shop units in Torhill House. While any rental shortfall on Investment properties and Fleet Walk would initially be met from the relevant earmarked reserves there is likely to be an overall impact on rental income. **Therefore a contingency of £0.5m for rent income losses has been included.**

4. Income

Central Government "General" Funding

The **Local Government Finance Settlement** for 2020/21 was finalised in January 2020 based on the one year Spending Round announced in September 2019.

For Torbay over the past four years of the settlement its **Revenue Support Grant (RSG) reduced from £27m in 2015/16 to £6m in 2019/20.** Nationally to 2019/20 there had been a £6bn or 56% reduction in MHCLG funding for local government over the past decade. For 2020/21 the RSG was not been reduced but was increased by an inflation factor of 1.6%.

MHCLG has commenced a review of the allocation of resources between councils, now likely to be applicable from 2022/23. If Torbay's relative "need" has reduced since the last review (pre 2013) compared to areas 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 be considered to have reduced compared to other areas (based on an ONS population forecast from 2014 to 2023 Torbay's projected population increase is 4% compared to an England increase of 7%). MHCLG intend to have a formula that is as simple and transparent as possible including using **Key Cost Drivers** within each service and have started a process of consultation on the formula design.

New Homes Bonus Grant is an incentive driven grant linked to housing growth. The grant was reformed from 2017/18, reducing the financial incentive, and now reaches a maximum level when it will be based on a rolling four year data set of new homes. In addition a growth threshold of 0.4% was introduced.

In December 2019 MHCLG stated that:

> *"It is not clear that the New Homes Bonus in its current form is focused on incentivising homes where they are needed most. I am therefore announcing that the government will consult on the future of the housing incentive in the spring.*
>
> *This will include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance".*

In the light of the above statement no New Homes Bonus grant has been forecast for 2022/23 onwards.

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

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

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

1. That the impact of the, yet to be announced, four year Spending Review 2020 is a nil impact on the Council due to the challenging national fiscal position offset by a recognition of the ongoing impact of COVID and the weak economy on Councils.

2. The impact of the new Funding Formula combined with an initial level of transitional protection is a reduction of £1m in 2022/23 and then a further £1m reduction in both 2023/24 and 2024/25.

3. That in introducing the new NNDR system in April 2022, MHCLG will recoup all NNDR growth since 2013 to enable the total funding to be redistributed to all Councils in the new formula to be higher. The impact of this is estimated to be a net £0.5m reduction.

4. No New Homes Bonus Grant has been assumed for 2022/23 a reduction of £0.9m.

5. Gain of £0.9m from the Devon wide NNDR “Pool” will disappear when NNDR levy payments are stopped from April 2022.

The table below provides an estimated position on future funding levels over the next four years, which includes an assumed a neutral impact of the four year Spending Review 2020, an overall reduction in funding for the next two years from COVID-19 (2021/22) and then from reductions and formula changes (2022/23), the impact of the Business Rate Retention Scheme (2022/23) 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:

	2020/21 Estimate £’000	**2021/22 Estimate £’000**	**2022/23 Estimate £’000**	**2023/24 Estimate £’000**
Business Rate Retention – Council Share	14.6	13.9	28.5	29.1
NNDR Top Up Grant	15.1	15.4	5.6	5.7
Section 31 – NNDR New Burdens Grant	4.5	4.6	0	0
Sub Total NNDR Retention	**34.2**	**33.9**	**34.1**	**34.8**
Revenue Support Grant	6.5	6.5	5.5	4.5
New Homes Bonus Grant	0.9	0.7	0	0
Council Tax	72.3	72.1	73.8	75.7
Collection Fund Surplus/(Deficit)	1.7	0	0	0
Total	**115.6**	**113.2**	**113.4**	**115.0**

The changes to the calculation of the Council's funding (expected) from April 2022 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 2020. 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 for example reduces the amount of funding for Torbay it is likely that it will be the NNDR Top Grant that will be adjusted.

6. There is likely to be a transitional scheme whereby the impacts of the changes in 2022/23 compared to the 2021/22 funding level will be phased in over the length of the next Spending Review, 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 of £9.7m in 2020/21. This grant had been reducing by 2.5% per annum each year however in 2020/21 the grant increased by an amount above the rate of inflation.

The future allocation of this grant from 2022/23 under the new funding formula and a 75% NNDR scheme is uncertain. If the public health grant is from April 2022 included in any "needs share" calculation then the NNDR Top Up grant will be increased to compensate for the loss of the specific public health grant.

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

Other key grants for the Council, the **Troubled Families Grant, Adult Social Care Grant** and the **Flexible Housing Grant** have not been confirmed for 2021/22, however it has been assumed these will continue.

The Improved Better Care Fund for adult social care. The grant iwas £8.6m in 2020/21 and now incorporates the Winter Pressures grant. The grant is fully allocated to fund the ICO contract fee for adult social care. As with other grants the future allocation of this grant from 2022/23 under the new funding formula and a 75% NNDR scheme is uncertain, however it has been assumed these will continue.

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

Council Tax

Council Tax income is dependent upon 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. However is outlined in the COVID section, it is forecast that collectability of Council tax will reduce by 2% and the increase in demand for Council tax Support Scheme will reduce income by a further 1%.

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. The forecast 2020/21 shortfall on the collection fund (Council tax, NNDR, CTSS) of £5.2m will need to be funded over three financial years from 2021/22, a reduction in the collection fund surplus of £1.7m each year.

In 2020/21 the Council set a rate of £1,563.01 Council Tax per Band D property a rise of 3.99% of which 2% is exclusively for Adult Social Care.

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

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

	2020/21	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Council Tax Base	46,275	45,608	45,879	46,140
Council Tax Level - (Band D)	£1,563	£1,594	£1,626	£1,658
Council Tax Rise - %	3.99%	1.99%	1.99%	1.99%
Council Tax Income	£72.3m	£72.7m	£74.6m	£76.5m

Table last updated 29 July 2020

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

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

Table last updated 31 July 2020

Business Rate (NNDR) Income

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

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

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

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

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

- Introduction of a 75% scheme from 2022/23 (revised date),
- NNDR increases/decreases in growth kept/funded by Councils in a five year period,
- **Every five years a “partial or full reset” of NNDR growth** with NNDR income from councils with growth transferred to councils with need subject to an element of growth being kept,
- Councils with negative growth will be protected,
- Existing NNDR pool and levy payments to go,
- New, as yet unidentified, incentives for NNDR pools (with other Councils),
- New, as yet unidentified, incentives for **Local Growth Zones** (with other Councils),
- Sharing of appeal risk, shared between councils or risk held by MHCLG with annual adjustments made to Council baselines for changes from appeals.

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

Where councils are able to collect outstanding NNDR in a following year(s), this income falls into the Collection Fund and is part of the Council’s overall income in the financial year following collection. For 2021/22 the forecast 2020/21 shortfall on the collection fund (Council tax, NNDR, CTSS) of £5.2m will need to be funded over three financial years from 2021/22, a reduction in the collection fund surplus of £1.7m each year.

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

Service Income

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

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

In addition to income from sales, fees and charges the Council receives a further £20m **of rental income** each year. A significant proportion of this rent income relates to property purchases from the Investment Fund established to purchase Investment Properties for generating income to support the Council's overall financial position. In addition in July 2019 Council approved £100m of borrowing to support regeneration investments which could result in more rental income in the future such as the Fleet Walk purchase and associated rental income.

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

5. Expenditure

The 2020/21 budget approved by Council in February 2020 provides the base position of the financial strategy. The starting point is the 2020/21 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 3.0% rise (higher for lower grades) is made for 2021/22 for staff followed by rises of 2% in each of the following years. (Note the 2020/21 pay award has been agreed at 2.75%).

(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 2023, at this stage no estimates of a future change have been made, although if asset returns are impacted by the economic impact of COVID in the longer term this may result in a higher contribution rate.

(f) National Living Wage is expected to rise in 2021/22. 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.

(g) The current financial pressures from social care in 2019/20 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 has recommended that the Comprehensive Spending Review target reserve balance is £3m.

Service Expenditure Pressures

As well as the anticipated reduction in funding, the Council's budget is also under pressure from the other direction with a continuing increase in the number of vulnerable people accessing Council services, notably within Adult Social Care and Children's services. Information on the

Council's population and other demographic information are available on http://www.southdevonandtorbay.info/

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

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

There are short term risks to achieving the approved budget reductions for services. The budget reductions identified for 2020/21 are challenging for all services and there is an underlying risk that these will not be fully achieved, particularly in the light of the impact of COVID19.

Over a number of years there has been a continuing financial impact of service pressures within **Children's Services** due to caseload, complexity of cases and lack of local provision for care. To reflect this ongoing pressure and to provide additional capacity within the service, additional funds of £9.8m were included in the 2020/21 budget. Initial budget monitoring in 2020/21 are indicating an underspend in this service, however at this stage no assumptions of savings in the service compared to the 2020/21 base budget have been assumed.

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 has been 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 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 2020/21. Schools Forum have set up a Higher Needs Recovery group to look at options to stabilise the current budget position and fund previous year deficits.

The Department for Education has, in part, recognised the budget pressures a number of Councils are experiencing and have allocated an addition £0.7bn nationally in 2020/21 of which Torbay's share is £1.4m. However this extra funding plus the agreed 0.5% transfer will still leave a budget deficit of at least £2.2m in 2020/21**. This deficit will result in an accumulated deficit of at least £6.0m by the end of 2020/21 which is unsustainable**. It is clear from legislation (Regulations passed in February 2020) that this financial pressure is not a direct cost to the Council but will ultimately need to be funded from the DSG grant **but it is unclear how, when and if, this will be funded in the longer term.**

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

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

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

Changes to Council Functions and Initiatives

There are 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
Council Re design	Review customer and business process throughout the Council	2020/21
TOR2 to SWISCo	TOR2 contract to end June 2020 with services transferred to SWISCO a subsidiary company	July 2020
Transformation Programme	A programme of initiatives to help deliver the future year savings required	Ongoing
TorVista Homes and TEDC Developments	New subsidiary companies to build and rent affordable housing	2020/21
Torbay Education Limited	New company to run the Medical Tuition Service	October 2020

Council Owned Companies

The Council owns or has a shareholding in a number of companies: there are six TDA related companies, Careers South West (25% ownership), Torbay Education Limited (100%) and SWISCO (100%) and TOR2 (currently 20% ownership). As the Council is owner of these companies and will consolidate these companies in its Group Accounts, the financial performance of these companies and their assets and liabilities need to be regularly reviewed to ensure that there is not a financial implication for the Council in future years.

6. Reserves and Risk

Reserves

There continues to be a considerable amount of attention and debate given to the level of reserves held by local authorities. 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 2020/21 Review of Reserves report was presented to Council in February 2020.

The main pressures on reserves are:

- Financing the 2020/21 overspend in particular any unfunded COVID-19 costs or lost income,
- 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,
- Negative reserve from increasing deficit on Dedicated Schools Grant - higher needs block.

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

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

In addition the Council's **general fund reserve of £4.6m is identified as low** compared both to other Councils and as a percentage of the net council 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 uncertain and very fluid ongoing impact of COVID-19 and the ultimate level of central government funding to mitigate, number of significant changes to the system for local government both from the review of the funding allocation between Councils and the introduction of a 75% NNDR retention scheme. To mitigate this risk, the MTRP will be updated as appropriate to take account of changing circumstances and new intelligence.

In addition to the significant funding uncertainties listed in the overview section of this plan in particular the Spending Review 2020 review, new funding formula and impact of 75% NNDR retention and the potential changes in services currently now provided by SWISCo, other significant financial planning risks that may affect the projections are likely to be:

- Inflation runs at a much higher rate than the rates that have been assumed,
- Borrowing costs are higher than anticipated in any Business case for capital expenditure,
- Income projections built into the budget may not be achievable due to factors outside of the council's control e.g. a worsening economic outlook, further reduction in investment yields,
- Ongoing demand and cost of social care both Children's and Adults,
- 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,
- Achievement of 2020/21 and future year budget savings,
- Financial Performance of the Integrated Care Organisation and the Council's future adult social care cost,
- 2023 Pension actuarial Review,
- Future year increases to the Living Wage,
- Collection fund balances – collection of NNDR and Council Tax,

- Risk of exposure of any major legal claims against the Council,
- Impact of the Devon-wide NHS Sustainability and Transformation Plan on Torbay,
- Impact from the TDA and its related companies expansion into new trading areas including housing,
- Impact of major schemes linked to Regeneration,
- Impact of Council ownership of SWISCo,
- Impact of Ofsted judgement of “inadequate” for children’s social care,
- Reserve levels “resilience” to future financial pressures.

Appendix 1 – Timetable

The key dates in relation to the Council's 2021/22 budget setting process are:

Revenue Budget Setting Process		Timeline
2021/22 Budget Development	Cabinet & Chief Executive	March 2020 – October 2020
MTRP – Targeted actions to meet "gap" including Star Chambers	Cabinet & Chief Executive	April to September 2020
MTRP – Updated "gap"	Chief Finance officer	August 2020
Spending Review	HM Treasury and MHCLG	November 2020
2021/22 Partnership Budget Proposals	Cabinet	October 2020
2021/22 Budget Proposals Consultation	Cabinet	November to December 2020
2021/22 Finance Background Reports available	Overview & Scrutiny Board	By November 2020 for (a minimum of) six weeks
Local Government Finance Settlement	MHCLG	December 2020
2021/22 Budget Approved	Council	February 2021
2021/22 Council Tax Set	Council	February 2021
2021/22 Budget Digest published with MTRP update	Chief Finance Officer	March 2021
2022/23 & 2023/24 Budget development	Cabinet & Chief Executive	Ongoing

Appendix Two – Spending Review 2020

The following is the HM Treasury press release from July 2020 in relation to the four year Spending Review.

“The review will set UK Government departments’ resource budgets for the years 2021/22 to 2023/24 and capital budgets for the years 2021/22 until 2024/25, and devolved administrations’ block grants for the same period. The CSR will prioritise:

- strengthening the UK’s economic recovery from COVID-19 by prioritising jobs and skills
- levelling up economic opportunity across all nations and regions of the country by investing in infrastructure, innovation and people – thus closing the gap with our competitors by spreading opportunity, maximising productivity and improving the value add of each hour worked
- improving outcomes in public services, including supporting the NHS and taking steps to cut crime and ensure every young person receives a superb education
- making the UK a scientific superpower, including leading in the development of technologies that will support the government’s ambition to reach net zero carbon emissions by 2050
- strengthening the UK’s place in the world
- improving the management and delivery of our commitments, ensuring that all departments have the appropriate structures and processes in place to deliver their outcomes and commitments on time and within budget

Due to unprecedented uncertainty, the Chancellor did not fix a set spending envelope, but confirmed that **departmental spending (both capital and resource) will grow in real terms across the CSR period** and that the government will deliver on the commitments made at Budget to level up and invest in the priorities of the British people.

Given the impact COVID-19 has had on the economy, the Chancellor was clear there will need be tough choices in other areas of spending at the review. As part of their preparations for the CSR departments have been asked to identify opportunities to reprioritise and deliver savings. Departments will also be required to fulfil a series of conditions in their returns, including providing evidence they are delivering the government’s priorities and focussing on delivery.”

The Chancellor of the Exchequer, Rishi Sunak, said:

“The first phase of our economic response to coronavirus was about safeguarding employment as far as possible. Our goal in the second phase is to protect, create and support jobs and we set out our plan to achieve this two weeks ago.

The Comprehensive Spending Review is our opportunity to deliver on the third phase of our recovery plan – where we will honour the commitments made in the March Budget to rebuild, level up and invest in people and places spreading opportunities more evenly across the nation.

To help frame the government’s approach at the Spending Review, an interim report of the Net Zero Review will be published this Autumn, followed by a final report in the Spring.

HMT has opened a process for the Comprehensive Spending Review to allow external stakeholders to submit representations”.