

REPORT OF Strategic Manager (Resources)
To: Community and Resources Committee
Subject: Budget 2019/20, Medium Term Financial Strategy 2019/20 – 2023/24
Date: 4th February 2019 Reference:

PURPOSE OF REPORT: For Members to consider, formulate and recommend the Budget 2019/20 to Full Council.

The Medium Term Financial Strategy (MTFS) indicates the possible extent of the budget and funding shortfall that the Council will face in the future. It is an aid in identifying the extent of service changes that the Council will need to make to achieve a balanced budget in each financial year up to 2023/24

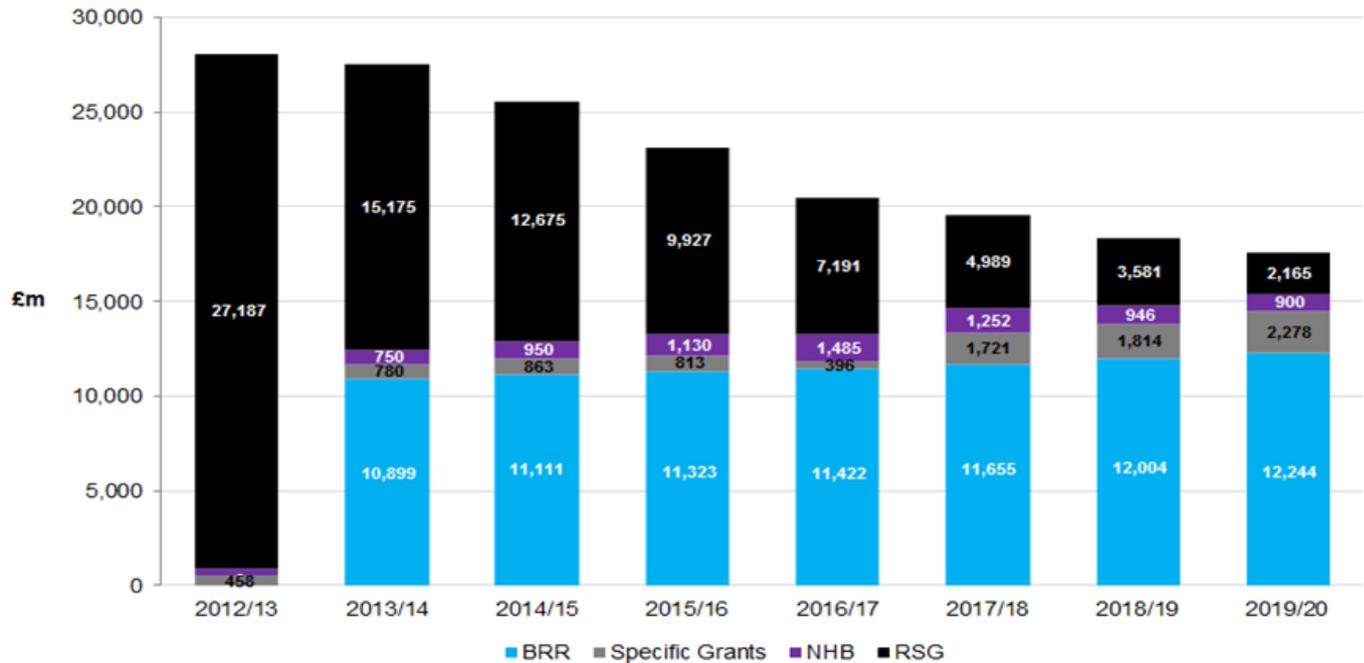
1. Introduction

- 1.1. The Medium Term Financial Strategy (MTFS) provides an annual update of the Council's financial situation for the current and forthcoming five years. It illustrates through the application of forecasts and assumptions where and how spending pressures could materialise, how different funding sources may change and the savings plans required to manage any identified revenue budget gap. The funding of public services has been cut year on year since 2010 and the recent Spending Review and Provisional Local Government Settlement confirmed that the squeeze will continue for some years yet.
- 1.2. The MTFS provides the basis for the members to consider the 2019/20 budget and also whether an increase in Council Tax should be recommended to Full Council for 2019/20.
- 1.3. Whilst considering the 2019/20 Budget and the MTFS it is prudent to review and assess the levels and types of financial reserves the Council holds. This review is conducted in light of the levels of risk the Council faces and the potential financial impact if a major risk comes to fruition.
- 1.4. The Council's capital investment plan detailing the resources it has available are considered in a separate report.

2. Report

- 2.1. The Council's MTFS considers the changing financial situation covering six financial years, 2018/19 (base year) to 2023/24. Longer term projections can be made, but they become less realistic the further ahead the forecast is made and therefore five years ahead is considered prudent to model. The starting position is the 2018/19 budget, which is rolled forward based on a set of assumptions as set out throughout the report. It is important to note that these are only assumptions and not specific decisions as these will need to be considered on an annual basis during the budget setting process.
- 2.2. It is worth emphasising that Torridge has successfully achieved all the savings targets required since the global financial crisis started, setting and delivering a balanced budget despite ever continuing reductions in Central Government funding.
- 2.3. Local Authorities continue to operate in a challenging environment, with ongoing reductions in Central Government grant funding. Increasingly Councils (particularly Shire Districts) are reliant upon the monies they generate from Council Tax, Business Rates and Fees & Charges The cuts to all local authority funding and the movement away from central revenue support grant funding is illustrated below.

Local Authority Funding 2012/13 to 2019/20



Funding reduced from £28.1bn to £17.6bn over the period (37%)

3. Financial Environment for Local Authorities

3.1 Members will be aware from the media that Northamptonshire County Council has issued two Section 114 notices (suspension of all non essential spend). Whilst the factors behind the financial problems facing Northamptonshire Council are many, the key factor was the inability of the Council to address the reductions to its funding by either increasing its Council Tax or reducing expenditure. Other County Councils and Unitaries such as Somerset, Surrey, Lancashire and Torbay have been widely reported as facing severe financial pressure.

A recent National Audit Office report “sustainability of local authorities 2018” projected that 1 in 10 Councils will run out of reserve within the next three years.

3.2 Audit opinion on VFM

The Council External Auditors annual report reported presented to Audit & Governance Committee in July 2018 commented upon the deficit identified within the Council’s Medium Term Financial strategy. The report highlighted the need for the Council to formulate plans to bridge the identified deficit. With the attention shone on Councils in light of events at Northamptonshire, Torridge’s External Auditors will be focussing greater attention upon the Council’s savings plans.

3.3 CIPFA Resilience Index

In recognition of the challenging financial environment faced by local authorities, CIPFA has developed a financial resilience index which assesses local authorities’ against several indicators. The indicators include amongst others

- reserve depletion time,
- level of reserves
- level of unallocated reserves
- level of earmarked reserves
- Council tax to net revenue expenditure
- Business Rate Income to net expenditure

After applying these indicators CIPFA found that between 10 – 15% of Councils were not financially stable, Torridge is not in this group of councils.

However it should be noted that whilst the overall level of reserves held by Torridge are average for the sector; the level of unallocated reserves held by Torridge are significantly below the norm.

The other Torridge indicator of concern is the ratio of council tax income to net expenditure. The indicator provides a measure of the relative importance of council tax and grant funding. A lower ratio (such as Torridge) suggests a higher dependency on grant funding, putting the Council at risk as grant income diminishes. Income from council tax is judged to be more stable and predictable.

For 2019/20 the CIPFA Resilience Index is not publicly available and will not be reported on an authority by authority basis. However this may change in future years.

4. 2019-20 Provisional Settlement

Given 2019/20 is the last year of the four year settlement which Torridge and 97% of all councils signed up to, the provisional settlement contained few surprises. Overall the settlement was slightly more favourable to Torridge than had been previously predicted. The key points are summarised below:

- **Council Tax Referendum Limits**

- The referendum limits were unchanged for Torridge this means that Council Tax for a Band D can be increased by £5 or 3% whichever is the greater. A £5 increase to a Band D property for Torridge equates to 3.15%.
- Upper tier authorities such as Devon CC and Devon & Somerset Fire Authority can increase their Council Tax by 3%.
- The continuation of the adult social care precept was confirmed. Maximum flexibility of 2% of band D in 2019-20, subject to a 6% increase for the period 2017-18 to 2019-20. For Devon CC this means that in addition to the 3% general increase to the Council Tax, they can also raise an additional 2% social care precept in 2019/20.
- Police and Crime Commissioners such as Devon and Cornwall can increase their Band D precept by £24 without triggering a referendum, which equates to 12.75% for Devon & Cornwall Police Commissioner.
- There is no referendum limits for Town and Parish Councils

- **Rural Delivery Grant**

- In recognition that Councils in sparsely populated areas incur additional costs, such as refuse collection, Central Government provides a Rural Delivery Grant to rural authorities such as Torridge. Central Government has allocated an additional £16m nationally in the 2019/20 settlement to maintain the Rural Delivery Grant at its 2018/19 levels; Torridge's share of this *additional* funding being £94k in 2019/20 (£474k in total).

- **New Homes Bonus**

- Central Government allocated an additional £18m nationally to ensure there were no changes to the rules governing the allocation of New Homes Bonus monies, consequently the deadweight adjustment of 0.4% above which housing growth is rewarded remained unchanged.

- **Distribution of Surplus on National Business Rate Levy Account**
 - The levy account has collected surpluses from surpluses on local authorities business rates collection fund accounts, the levy being intended to fund safety net payments to those authorities whose business rate income fell by more than 7.5%. As levy receipts have exceeded safety net payments Central Government has decided to distribute £180m surplus funds from this account in 2018/19; Torridge share being £35k.

- **Social Care Grant Funding**
 - Two new social care grant were announced; Winter Pressure Grant £240m and Social Care Support Grant £410m; as a lower tier authority Torridge will not receive any of this additional funding.

- **Retail Relief – Business Rates**
 - The Government has announced a new relief scheme for retail properties that have a rateable value of below £51,000. Under the scheme, eligible ratepayers will receive a one third discount of their chargeable amount (after other reliefs have been applied). The retail relief will be in effect for 2019/20 and 2020/21 and potentially eligible businesses will have the relief automatically added to their account.
 - State aid rules will apply to the retail relief, the rules prevent businesses from receiving in excess of 200,000 euros (circa £178,500) in state aid over a three year period way. This means that relief will be capped for national chains such as Tesco Metro, McColls etc.
 - Councils will be compensated for their loss of business rate income as a result of the awarding of this additional relief via Section 31 Grant. Within Torridge it is estimated that the additional relief offered to retail businesses will be in the region of £440k.

- **Business Rate Pilot**
 - For 2018/19 Torridge is a member of the Devon Business Rate Pilot, the pilot ensures that all business rates collected are retained within Devon. The estimated financial benefit to Torridge of its membership of the pilot is circa £374k, these monies have been earmarked for economic development.
 - Devon’s application to be a pilot in 2019/20 was unsuccessful, consequently from 2019/20 Torridge will revert to being a member of the Devon Business Rate Pool which is significantly less financially advantageous. In 2017/18 the financial benefit of Torridge’s membership of the Devon Business Rates Pool was £89k.

The Table below summarises the grant funding assumed within the MTFS

	2019/20	2020/21	2021/22	2022/23	2023/24
Grant Funding	£'000	£'000	£'000	£'000	£'000
Revenue Support Grant	131	0	0	0	0
Rural Delivery Grant	474	380	380	380	380
New Homes Bonus	1,189	1,014	897	957	1,096
Preventing Homelessness	144	0	0	0	0
Total	1,938	1,394	1,277	1,337	1,476

The provisional settlement does not however provide the full picture with regards to funding as the national Government model also assumes levels of growth in business rates income and council tax income, which are dealt with separately.

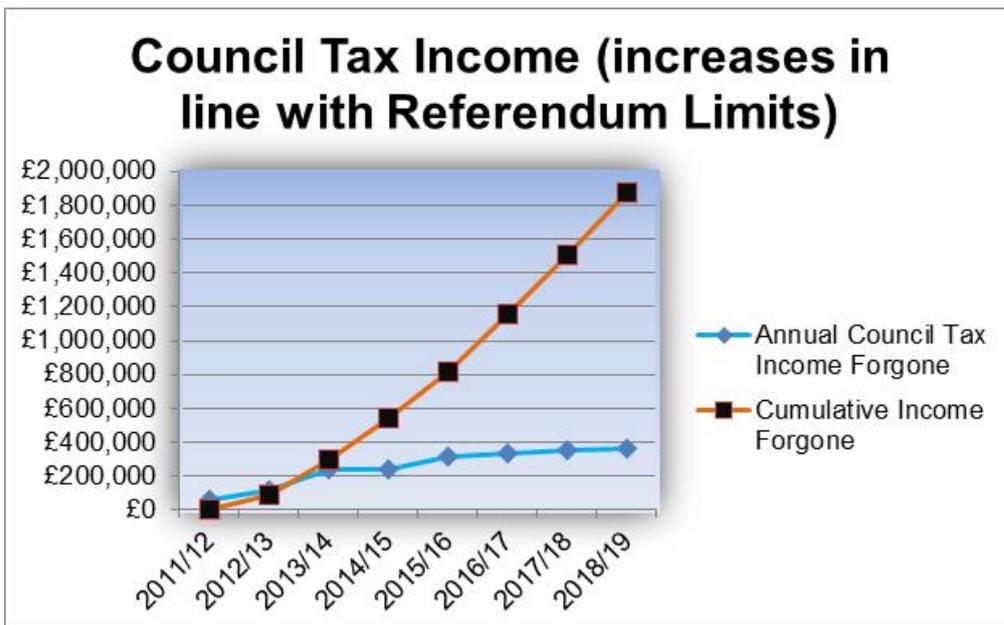
5. Business Rates Retention

- 5.1 Under the Business Rate Retention Scheme (BRRS) introduced in 2013/14 Torridge Council retains 40% of the business rates collected within the Torridge area. Prior to 2013/14 local authorities such as Torridge collected business rates on an agency basis on behalf of Central Government, with Central Government bearing any losses arising from non collection and business rate appeals.
- 5.2 Whilst Torridge Council benefits from growth in business rates income within its area, it also shares the risk of lost income arising from non collection and appeals. Since its inception the scheme has become increasingly complex with Central Government introducing new reliefs, most notably pertaining to small businesses. Local authorities such as Torridge receive compensation for the lost of income as the volume of reliefs awarded have increased via Section 31 Grants.
- 5.3 Business rates are periodically subject to national revaluations; these revaluations are intended to be fiscally neutral at a national and local level for funding purposes. The amounts levied on individual businesses will can go up or down. The revaluations are designed to reset business rates taking into account the changes in the property market. The latest revaluation came into effect from the 1st April 2017.
- 5.4 Past experience informs that following such revaluations there is an increase in the number of business rate appeals lodged. There are currently 61 outstanding revaluations against the 2010 valuation list, with a total rateable value of £5.5m. The Council has set aside a provision against the future settlement of these appeals of £867k, of which Torridge's share at 40% is £347k.
- 5.5 With effect from 1st April 2017, the process by which businesses submit appeals against their business rates changed. A new system of check, challenge and appeal places greater responsibility on the business appealing to provide supporting evidence for the grounds of their appeal. Previously rating agents could lodge appeals on a speculative basis, in order to "gather up" clients prior to allocating resources to those with the greatest chance of success.
- 5.6 As a result of the new system of check, challenge and appeal, the volume of appeals against the 2017 valuation list compared to appeals against the 2010 list has reduced markedly. As at the time of this report there were no outstanding appeals against the 2017 list, and just two outstanding challenges. Whilst the low volume of challenges and appeals would appear to be encouraging, some degree of caution is appropriate. Rating agents acting on behalf of businesses generally receive a percentage of the business rates they save for their clients. As successful appeals are backdated it may be in the interest of the rating agents to delay the submission of appeals in order to maximise their eventual income.
- 5.7 Since the inception of the Business Rate Retention Scheme in 2013/14 there has been an underlying growth in the Business Rate Base within Torridge. In addition to new businesses at Caddsdwn such as Aldi, Lidl, Brewers Fayre, Premier Inn etc; there has been a growth in the number of properties registered as holiday homes and subject to Business Rates.
- 5.8 There is currently a government consultation pertaining to tightening the criteria under which premises can be registered as holiday homes. There is some suspicion that some properties may be registered as holiday homes merely to avoid paying Council Tax. The vast majority of holiday homes are entitled to small business relief and consequently do not pay any business rates; however Torridge is compensated for this loss income through Section 31 Grant. Furthermore premises assessed for Business Rates are required to enter into Trade Waste agreements which have not always happened.

Should there be significant movement of properties from Business Rates to Council Tax this will result in a loss of income to the Council since Torridge share of Council Tax is less than 9%; under the current Business Rate Retention regime Torridge's share of Business Rates is 40%.

6. Council Tax

- 6.1 In 2018/19 a Band D Council Tax within Torridge is £158.66 with an estimated collectable tax base of 23,552 Band D equivalent properties. This equates to £3.736m income from council tax being available during the year.
- 6.2 On the 10th December 2018 Full Council approved the tax base for 2019/20 at 23,790 band D equivalent properties, representing an increase of 238 from 2018/19.
- 6.3 The Government's assessment of Core Spending Power (resources available to the local authority sector) is built on the expectation that Council Tax **will increase year on year, within the approved referendum limits**, currently set at 3% or £5 per band D (which ever is the greater) for Shire Districts. Central Government also assumes an underlying growth to the Council Tax Base of 1.96%, the growth in Torridge's Tax Base for the last two financial years has averaged less than 1%.
- 6.4 It is vitally important to consider the longer term cumulative impact of council tax increases as once a charge has been included in the tax base it has a much longer financial benefit than simply the year it was increased.
- 6.5 Members in previous financial years have made the decision to freeze council tax, in some years the Council was partly compensated by non recurrent council tax freeze grant funding from Central Government. The graph below shows the impact that freezing the Council Tax in prior years has had upon the income the Council can currently collect from Council Tax.



If the Council in previous years had increased the Council Tax in line with the relevant referendum limits it would be able to levy an additional £368k per annum in Council Tax Income (as at 2018/19). The cumulative council Income forgone over this period is just under £2m.

6.6 As Torridge's share of the total council tax bill is a relatively small percentage of the total council tax bill, the impact on the individual Council Tax payers if Torridge had increased the Council Tax by the approved referendum limits would have been relatively minor. The table below illustrates this.

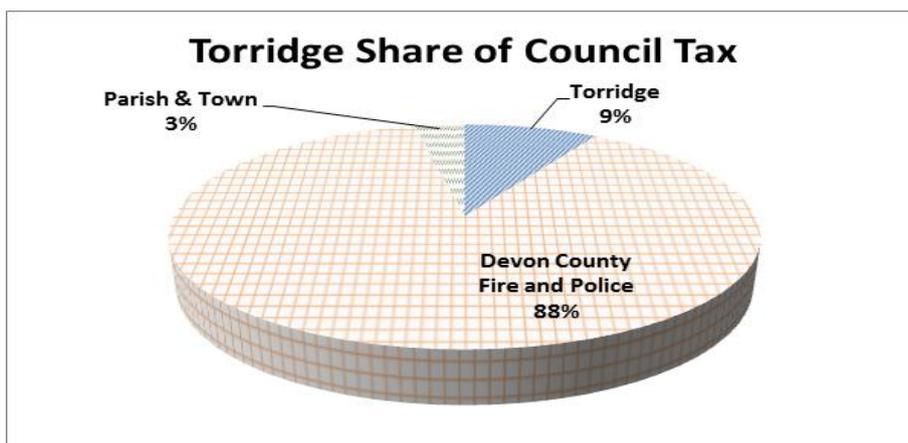
By way of illustration for a Band D taxpayer the additional charge in 2018/19 would be £15.55 greater at £174.20 equating to 30p extra per week.

Council Tax Band	Actual 2018/19 Council Tax Charged	2018/19 Council Tax (if increased by Referendum Limits)	Additional charge to Council Tax payers forgone	Equates to weekly increase
A	£105.77	£116.13	£10.37	£0.20
B	£123.39	£135.49	£12.09	£0.23
C	£141.02	£154.84	£13.82	£0.27
D	£158.65	£174.20	£15.55	£0.30
E	£193.91	£212.91	£19.01	£0.37
F	£229.16	£251.62	£22.46	£0.43
G	£264.42	£290.33	£25.92	£0.50
H	£317.30	£348.40	£31.10	£0.60

6.7 As alluded to above Torridge's share of the total council tax bill is relatively small. The table below shows Torridge share of the 2018/19 Council Tax (8.71%) and its share of the total 2019/20 council tax liability (8.50%) *assuming all preceptors raise their council tax by the approved referendum limits*.

Preceptors	2018/19 Charge (Band D)	2018/19 - % of total Council Tax	2019/20 Council Tax - if raised to Referendum limits	2019/20 - % of total Council Tax	
Torridge Council	158.66	8.71%	163.66	8.50%	
Devon County	1331.19	73.09%	1397.62	72.62%	
Police & Crime Commissioner	188.28	10.34%	212.28	11.03%	
Devon & Somerset Fire	84.01	4.61%	86.53	4.50%	
Town & Parish (average)	59.09	3.24%	64.41	3.35%	****
Total Charge	1,821.23	100.00%	1,924.49	100.00%	

**** No Referendum limits for Parish & Town Councils; estimated 2019/20 uplift



6.8 The table below shows the increasing reliance of local authorities nationally on Council Tax as a source of revenue.

Council Tax – the change to the balance of funding

	2015/16 £bn	2016/17 £bn	2017/18 £bn	2018/19 £bn	2019/20 £bn
Government funding (including SFA)	22.6	20.5	19.6	18.8	18.5
Council tax	22.0	23.2	24.7	26.3	27.9
Council Tax as a Proportion of Total	49%	53%	56%	58%	60%

- National funding has reduced by £4.1bn over 5 years, an 18% decline
- Council tax projected CSP funding has increased by £5.9bn over 5 years, a 27% increase
- Council tax will fund 60% of all CSP by 2019/20 compared to 49% in 2015

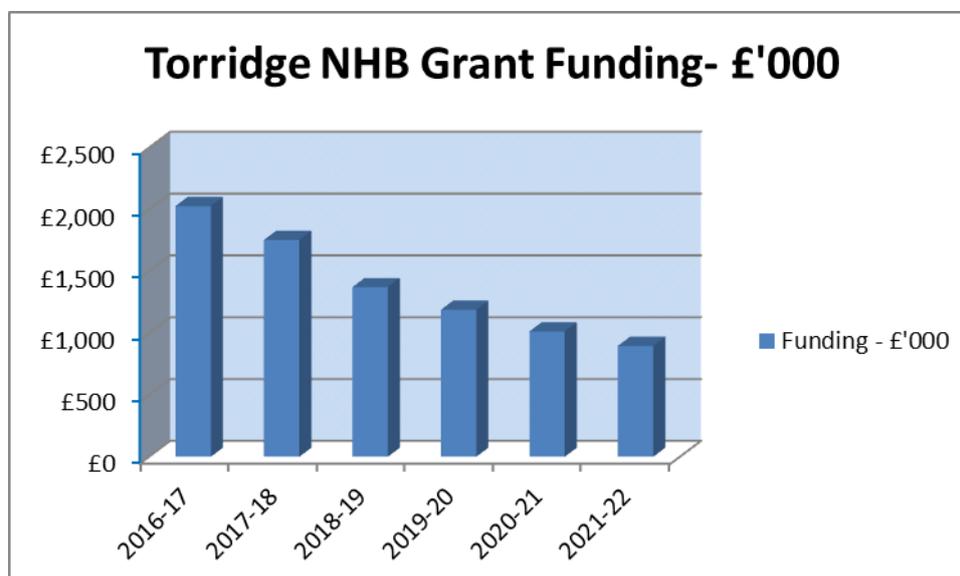
***CSP = Comprehensive Spending Power, SFA = Settlement Funding Assessment

7. New Homes Bonus Income

7.1 New Homes Bonus funding rewards Councils for increases to the number of properties in their area; it also rewards Councils for reducing the number of long term empty properties. Since its inception there have been two changes to the rules governing NHB:

- Reducing the reward period for additional properties from 6 years to 4 years.
- Introduction of a deadweight adjustment of 0.4%; resulting in councils only being rewarded for additional property growth over and above 0.4%. For Torridge this meant only property growth above circa 100 properties generated NHB grant funding.

The impact of these changes and the slow down in the number of new properties built is shown below.



2019/20 is the last confirmed year under the current New Homes Bonus (NHB) arrangements. It is not clear at this juncture if it will continue in its current guise beyond 2020/21.

The MTFS in the absence of clear guidance from Central Government assumes that NHB will continue forward based upon the current rules.

8. Budget 2019-20

8.1 Full Council on the 26th February 2018 agreed a net revenue budget of £10.31m; the Medium Term Financial Strategy (MTFS) highlighted to members a deficit for 2019/20 of £388k rising to £433k by 2022-23.

The budget setting process for 2019-20 has identified various pressures and savings, which have been incorporated into a revised MTFS, the most significant are expanded upon below:

- **Homelessness**

- The Council has experienced significant financial pressures pertaining to homelessness; due to recent legislation the Council has increased homelessness responsibilities. Additionally the lack of affordable rental accommodation within Torridge at LHA (Local Housing Allowance) rates, has led to increased stays within temporary accommodation as officers struggle to obtain sustainable tenancies on behalf of their clients.
- The Council is only partly reimbursed (via Housing Benefit) for the costs of temporary accommodation. The LHA rate for a single person is £92.05 per week, however temporary accommodation costs can often be in the region of £400 - £600 per week; the difference being borne by the Council.
- The Council will receive Preventing Homelessness Grant Funding in 2019/20 of £144k which will partly offset this pressure. Funding beyond 2019/20 has not been confirmed. Central Government has indicated that they are targeting the eradication of rough sleeping by 2027.

- **Local Government Association (LGA) Pay Award**

- The LGA and the relevant unions agreed a two year pay settlement effective from 1st April 2018/19. The agreement for 2019/20 removed some salary points, amalgamated other salary points and created new salary points. Consequently the Council has had to revisit its salary grades to accommodate these changes. This process has resulted in an increase to the overall salary costs of the Council.

- **Job Evaluation**

- A recent job evaluation process has resulted in an increase to the salary costs of the Council's HGV drivers within the Operations team

- **Revised Waste Collection Service**

- Members will recall that the Council introduced a revised Waste Collection service effective from June 2018. The key components of the new service being:
 - Alternative weekly collection of residual waste
 - Weekly collection of recycling
 - Introduction of chargeable green waste service
 - Separate Food Collections
- The service has been operational for nine months, the original resources allocated to the service have been re-examined in light of the greater than anticipated recycling tonnages and other operational issues. Consequently additional staffing resources have needed to be assigned to the service.

- The recycling tonnages collected and the take up of the green waste service have both exceeded projections, consequently the income targets for both have been revised upwards.

- **Agency Budgets**

- The refuse collection utilises agency staff for a variety of reasons:
 - Cover for sickness
 - Vacancies
 - Annual Leave
- Agency staff costs have risen for two reasons:
 - Agency working regulations oblige employers to pay agency staff the same salary (after 12 weeks) as their own staff. As the salaries of the Council's operations staff have risen so have the costs of the agency staff filling these roles. The two year LGA pay award was weighted towards the those lower salary grades generally payable to refuse and street cleansing staff, where it has meant above inflation rises,
 - It has been increasingly difficult to obtain agency staff, particularly HGV drivers, with the result that the costs of agency staff have risen significantly above inflation

8.2 The tables below summarises the movement on funding and expenditure identified since the Council's MTFs was last reported to members in February 2018.

	2019-20	2020-21	2021-22	2022-23
Funding Movement - (favourable) / adverse	£'000	£'000	£'000	£'000
Rural Delivery Grant	(93)	0	0	0
Prior Year Council Tax and Business Rate Surplus	(325)	0	0	0
Business Rate Income (include S31 Grant & contribution to Business Rate Pool)	1	(60)	(126)	(198)
Council Tax Income	19	(18)	(53)	(88)
New Homes Bonus Income	94	66	32	(7)
Contribution to Reserve (Economic Development)	(190)	0	0	0
TOTAL	(495)	(12)	(147)	(292)

	2019-20	2020-21	2021-22	2022-23
Pressures and Savings - (favourable) / adverse	£'000	£'000	£'000	£'000
Salary Related (includes Agency costs)	331	388	441	486
Operations Related Pressures, Fuel, Vehicle Hire etc	37	37	37	37
Preventing Homelessness Grant	(144)	0	0	0
Inflation	56	56	56	56
Homelessness	200	200	200	200
Green Waste & Recycling Credits Income	(125)	(125)	(125)	(125)
Interest receivable /payable	(41)	(51)	(59)	(69)
Increased revenue contribution - Replacement of Vehicles	44	44	44	44
Harbour / Pilotage Income	35	35	35	35
Relocation from Bridge Buildings	(38)	(38)	(38)	(38)
Reduced contribution Capital/grant from New Homes Bonus	(66)	(44)	(19)	10
Other Pressures & Savings	89	35	46	90
TOTAL	378	537	618	726

9. Revised MTFS Deficit

The pressures and savings identified since the last MTFS, and revised funding forecasts have impacted adversely on the projected deficit on the Council's revenue budgets. The table below summarises this.

	2019-20	2020-21	2021-22	2022-23	2023-24
	Deficit	Deficit	Deficit	Deficit	Deficit
	£'000	£'000	£'000	£'000	£'000
2018/19 MTFS	388	514	502	433	
2019/20 MTFS	270	1,039	973	866	752
Adverse (favourable) movement	(118)	525	471	433	

The Council has previously allocated monies into a Transition in Government Funding reserve to be used to balance its budgets whilst recurrent savings were identified. The scale of projected deficit means that without corrective action this reserve will be *fully utilised during 2020/21* see table below:

Projected Utilisation of Transition in Government Funding Reserve

	2018/19	2019/20	2020/21	
	£'000	£'000	£'000	
Balance b/fwd	1,287	1,201	931	
Contribution to projected 2018/19 overspend	86			**
Contribution to projected funding shortfall		270	1,039	
Balance c/fwd	1,201	931	(108)	
** Projected 2018/19 overspend is £271k, the balance of the overspend to be met from other reserves				

10. Council Reserves

10.1 In addition to the Transition in Government funding reserve the Council holds others reserves, the majority of which have been assigned for Capital purposes. The make-up of the Council's reserves is as below:

	£'000
Capital Reserves	9,140 ****
Transition in Government Funding Reserve	1,287
Other Earmarked Reserves	2,342
Total	12,769

*** The Council's capital program is currently over committed by £4m as detailed in the separate Capital report. The balance shown is prior to the release of funding to meet 2018/19 Capital spend

10.2 In addition to the specific reserves held above, a sum of £1.084m is also set aside as the General Fund Balance, which is there to deal with unforeseen events that are not budgeted for due to their unpredictability e.g. loss of income due to recession and cannot be met from other available resources in year. The balance on the General Fund being 10.51% of the Council's Annual net budget

10.3 The current level of monies held is considered appropriate in light of the existing and increased levels of risks associated with Torridge's current operational activities and responsibilities and the sum held is periodically risk assessed taking account of any new and emerging risks.

10.4 The Council utilises transfers to reserve to set aside funds for future commitments the table below outlines the funds to be set aside over the MTF5.

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
Vehicle Replacement Reserve	554	554	554	554	554
ICT replacment Reserve	80	80	80	80	80
General Contribution to Capital	203	115	57	87	156
General Contingency Reserve	70	70	70	70	70
Property Backlog Reserve	80	80	80	80	80
Community Grants Reserve	196	151	121	136	170
Other Reserves Transfers	21	(10)	(0)	43	43
Total	1,204	1,041	962	1,050	1,153

11. The Funding Horizon

11.1 Fair Funding Review

11.1.1 Torridge along with 97% of all Councils signed up to the four year settlement, 2019/20 being the last year of the four year settlement. Central Government is currently undertaking a fair funding review to be implemented in 2020/21. The methodology behind the previous fair funding review is over ten years old and has not been updated since the introduction of local business rate retention in 2013/14. The review is based upon an assessment of both local authorities' **relative needs and resources**. In order to determine the relative needs of local authorities; the weighting of various factors are considered some of which are shown below:

- Population
- Rurality
- Deprivation
- Responsibility, e.g. Adult Social Care, Children Services, Highways etc.

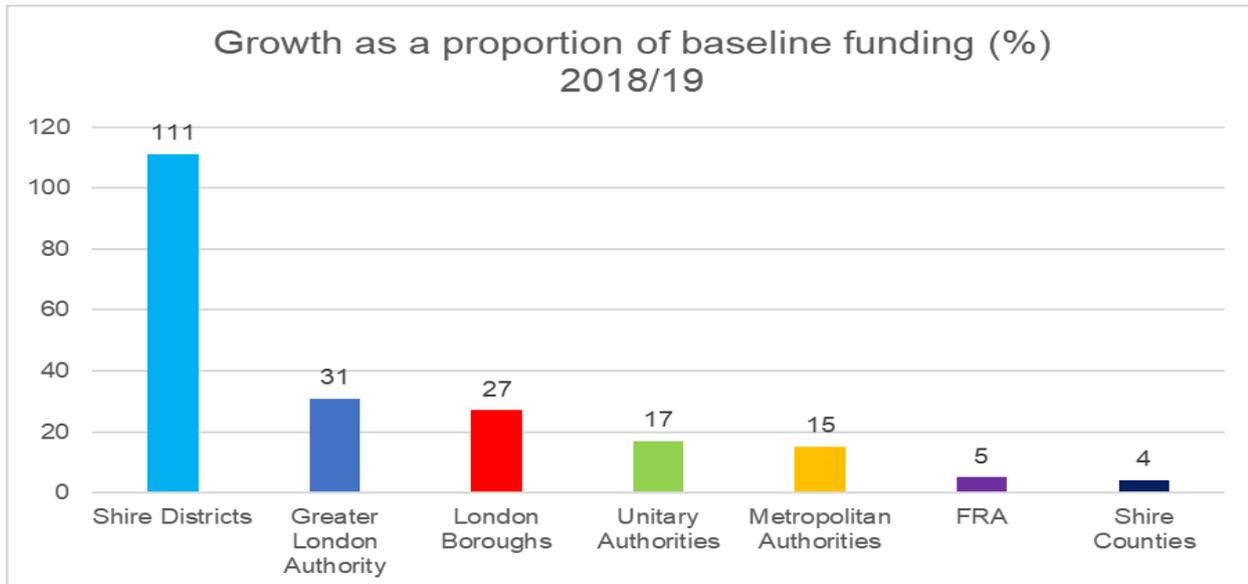
11.1.2 Allied to the determination of the relative need of local authorities, the total funding to be provided by Central Government will be assessed as part of the Comprehensive Spending Review. In simplest terms the Fair Funding Review will determine Torridge's share of the overall local authority funding pot.

11.1.3 As alluded to, the relative needs assessment was last updated in 2013/14 with the introduction of local business rates retention. In addition to assessing the relative needs of local authorities, this update reassessed the resources available to local authorities with the introduction to business rate retention.

11.1.4 For Torridge Council this meant that the 40% of estimated business rates it could retain (circa £4m) exceeded the assessment of its need, and consequently it was obliged to pay over to central government a tariff (circa £2m).

11.1.5 Since the introduction of local business rates retention Torridge Council along with the majority of Shire Districts have enjoyed significant growth in income from business rates, relative to their baseline funding level. This being due to the high percentage of business rates retained by Shire Districts (40%) relative to their level of baseline funding, Shire Counties have proportionally benefited less from business rate retention due to them only retaining 9% of business rates and their greater levels of baseline funding.

The table below graphically shows the benefits which have accrued to Shire Districts as a result of local business rate retention.



- 11.1.6 From a Torridge perspective the growth in business rates income is circa £900k, the reassessment of local authorities' relative need and available resources potentially puts this £900k growth at risk.
- 11.1.7 As detailed in paragraph 3.1 from recent press articles have highlighted the financial pressures faced by County Councils; most notably Northamptonshire County Council. Whilst the outcome of the fair funding review is unknown, there is a risk that resources will be reallocated from Shire Districts to Shire Counties. Adult Social and Children's Services costs have been highlighted in several media articles as spiralling out of control.
- 11.1.8 The fair funding review in addition to assessing local authority relative need, also reviews the level of resources available to local authorities; in particular business rate income (Business Rate Baseline).
- 11.1.9 The last fair funding reset in 2013/14 projected local authority business rate baselines based on the previous two financial years (2010/11 and 2011/12). The use of the latest data from 2011/12 meant that significant changes to some local authorities' baselines were not factored in.

The methodology for the "reset" of business rate income for the Fair Funding Review is still being determined. Factors still to be determined include:

- Establishing the base year(s) for assessing (Business Rate Baseline)
- Treatment of outstanding Business Rate appeals
- Treatment of bad debt provisions
- Transitional protection payments and relationship with appeals
- Future proofing for upward movement in mandatory reliefs:
 - E.g. Academy Schools Relief

As was the case in 2013/14 with any review of funding there will relative winners and losers. To-date there is a lack of any detail from Central Government, (beyond basic principles), as to how any Transitional arrangements will be implemented.

This means at this stage there is no information available as to how quickly gains or losses for local authorities after April 2020/21 will materialise.

It should be borne in mind that in addition to assessing the relative need of local authorities the fair funding review will also assess the resources available to local authorities, in particular Council Tax. As stated previously central government assumptions regarding the resources available to local from Council Tax include the following:

- Council Tax increase up to allowable referendum limits
- Assumed increases to Council Tax base circa 2% increase

11.2 Business Rate Retention 2020/21

11.2.1 Under the existing Business Rates Retention scheme 50% of all Business Rates are retained locally, the splits being:

- 40% retained by Districts
- 9 % retained by County
- 1% retained by Fire Authority
- 50% retained by Central Government

11.2.2 It is proposed that under the Business Rate Retention scheme for 2020/21 that 75% of business rate income will be retained locally, with Central Government retaining the balance of 25%. It is not known at this juncture what the splits will be between the different tiers of local government.

11.2.3 For Shire Districts a reduction in their split could result in a significant reduction in the additional income from future gains in business rate income.

11.2.4 Quite clearly with a greater proportion of business rates being retained locally there is a greater exposure of local government financing to business rate volatility.

11.2.5 The latest Central Government timetable suggests that local authorities will receive indications of the impact of 75% Business Rate Retention by spring 2019, with final figures in summer 2019.

11.2.6 Under the current Business Rate Retention scheme there is a system of levies and safety nets to mitigate the impact of large swings in Business Rate Income. With the levy system, 50% of the growth in business rate income was paid over to Central Government as a levy; Torridge membership of the Devon Business Rate Pool and its current membership of the Devon Business Rate Pilot have negated the payment to Central Government of levy payments.

11.2.7 The safety net system protects councils from declines in funding arising from falls in business rate income. Safety net payments are triggered where business rate income declines by greater than 7.5%. Safety net payments are not payable where local authorities are members of a Business Rate Pool or Pilot. There will be no levies under the 2020/21 Business Rate Retention scheme; safety net may be in place mostly likely funded by a Central Government top-slice.

11.2.8 Government has indicated that the new system of 75% Business Rate Retention will not have levy payment, however there may be a threshold above which local authorities will lose business rate income growth. As there will be no levies under the new scheme there is no incentive for local authorities to form Business Rate Pool from 2020/21.

11.3 Business Rate Revaluation 2021/22

11.3.1 Government has announced that the next Business Rates revaluation, for the financial year 2021/22. Business rate revaluations are designed to be both fiscally neutral at a national level, i.e. the sum of business rates liability nationally should not increase or decrease; and should also be fiscally neutral for individual local authorities. Business Rate revaluations are undertaken to adjust rateable values to reflect changes in the property market.

11.3.2 However the 2017/18 business rate revaluation saw an increase of £100k in the business rates collected by Torridge Council from renewable energy schemes (Wind and Solar).

- 11.3.3 Changes to business rate income from renewable energy schemes were excluded from the “fiscally neutral” element of the business rate revaluation. Torrridge retains 100% of all business rates from renewable energy, circa £800k in 2018/19 consequently there is a risk to Torrridge’s funding if renewables energy schemes suffer a downward valuation in 2021/22.
- 11.3.4 There are still unknown variables with respect to the 2021/22 Business Rate Revaluation, namely
- the centralisation of business rate appeals from 2021/22
 - impact of the tier splits arising from the move to 75% business rate retention in 2020/21

12. COMPREHENSIVE SPENDING REVIEW

- 12.1 During the spring of 2019 Central Government will undertake a Comprehensive Spending Review which will determine the overall funding envelope for Local Government. It is envisaged that the Comprehensive Spending Review will cover the period 2020/21 – 2023/24.

13. ROBUSTNESS OF THE BUDGET

- 13.1 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (s151 Officer) of a billing or major precepting authority to report to Members on the following matters;
- The robustness of the estimates made for the purposes of the budget calculations;
 - The adequacy of the proposed financial reserves contained within the budgets.

Robustness of Estimates

- 13.2 The estimates have been calculated based upon the information contained within the work and associated papers and guidance used to forecast the Medium Term Financial Strategy 2019/20 to 2023/24 within this report.
- 13.3 The estimate of income in the 2019/20 budget arising from the Business Rates Retention System is considered the greatest risk in terms of its accuracy in the light of significant changes reported in section 5 of the report. Thereafter the impact of the following represents the greatest uncertainty in funding for the Council.
- Comprehensive Spending Review
 - The Fair Funding Review 2020/21
 - 75% Business Rate Retention in 2020/21
 - Business Rate Revaluation 2021/22
 - New Homes Bonus post 2019/20
- 13.4 The final consideration is that this Council has a robust performance management framework in place with regular reports being presented to the Senior Management Team, Overview & Scrutiny (Internal) and Community & Resources Committees. This framework provides additional reassurance that budgets are proactively monitored and controlled throughout the financial year.
- 13.5 Taking all of the above into consideration, the budget which has been recommended for approval by Council is sufficiently robust for members to use it as a basis for approving the proposed Council Tax for 2019/20 and the use of financial reserves.

14 Medium Term Financial Strategy 2019/20 to 2023/24

- 14.1 It is prudent when considering the Budget 2019/20 that Members are aware of and take account of the longer term impacts that decisions and assumptions today have on the robustness of the Council's financial position over the medium term. The Medium Term Financial Strategy (MTFS) is a method of modelling this by the application of a range of assumptions, estimates and sensitivity analysis to produce an overall financial picture of how Torridge might look in 2023/24.
- 14.2 It is worth noting that these are only forecasts and they will definitely change, some better and some worse and this is therefore a guide to enable Members to consider strategically how they want the Council to operate over the coming years and what resources are available to deliver the Council's services and to support and implement the Strategic Plan. Members should also be reminded that where assumptions have been made for items such as Council Tax increases these do not bind the Council to those assumptions and Members will determine annually whether or not to increase Council Tax.
- 14.2.1 In reviewing the MTFS some core assumptions have been used to base the forecasts on. These changes reflect actual experience and additional information or remove unsafe assumptions. The significant and material assumptions made in preparing the MTFS also reflects the risks associated with the preparation of longer term forecasts and the main areas included are as follows:

Council tax increase MTFS assumes no uplift in 2019/20, there after a £5 increase per Band D (circa 3%) per annum is assumed for the remainder of the MTFS. As stated previously Central Government assessment of the resource available to the Council will assume that Council Tax will rise in line with referendum limit.

Tax Base The MTFS assumes an increase of 285 Band D Equivalents, circa 1.2% per annum

Revenue Support Grant no grant payable from 2020/21 onwards

Rural Services Delivery Grant £0.477m in 2019/20, and £0.380m thereafter.

Officer Pay will increase by 2% for the duration of the MTFS. It should be noted that Torridge is party to National Pay Agreements between the LGA and the relevant unions.

Universal Credit No assumption has been made regarding the Admin Grant Torridge receives from Department of Works and Pension for administrating Housing Benefit claims beyond 2019/20 with respect to the move towards Universal Credit.

Rents fees and charges Assume to rise in line with inflation. This does not include car park charges, where no increase has been assumed over the period of the forecast. However this does not preclude the Council from raising car park charges. The Council can still decide to raise charges by more or less than is included in the forecast with a corresponding impact.

Local Government Pension Scheme the last revaluation of the scheme took place during 2016, effective from 1st April 2017, following the review the employer's pension contributions have rose from 14.3% to 15.8%. The next actuarial revaluation of the pension scheme will take place during 2019 and come into effect from 1st April 2020. The MTFS assumes the employers pension contribution will rise to 17.3% for the duration of the MTFS.

Additionally the MTF5 assumes the contribution towards the Council's underlying pension deficit will rise as indicated below:

- 2020/21 £110,000
- 2021/22 £ 20,000
- 2022/23 £ 20,000
- 2023/24 £110,000

Business Rate Growth The MTF5 forecasts additional income from the business rates retention. The Council is forecast to benefit from growth in the business rates tax base at 1.5% per annum over the life of the MTF5.

New Homes Bonus In the absence of any clear steer from Central Government the MTF5 assumes there will be no changes to the rules governing the allocation of funding to local authority.

Fair Funding Review and 75% Business Rate Retention: At this juncture there is insufficient detail available to enable the Council to make any projections as to the impact the Fair Funding Review and 75% Business Rate Retention 2020/21, consequently the MTF5 make no projections pertaining to their impact. However it should be noted that the impact is likely to be negative upon Torridge's funding for the reasons listed below:

- Shire Districts such as Torridge have enjoyed funding growth from Business Rate Retention especially compared with Shire Counties (see 11.1). With effect from 2020/21 all business rate growth achieved by individual local authorities since 2013/14 will be lost.
- This business rate growth nationally of circa £1.5bn will be then (subject to any top slice by central government) be redistributed through the local authority sector based upon need the Fair Funding Review assessment of need and available resources. Given the pressure widely reported by upper tier shire counties, it would be reasonable to expect some transfer of funding between the tiers of local government

14.3 With all these forecasts and assumptions modelled through to 2023/24, Torridge's Budget is forecast to move from £10.31m in 2018/19 to £11.414m by 2023/24.

14.4 By 2023/24 the model assumes that if no remedial action is taken then the Council will have a funding gap of £0.752m with its Transition in Government Funding Reserve **exhausted** during 2020/21.

Area	2019/20	2020/21	2021/22	2022/23	2023/24
	£'m	£'m	£'m	£'m	£'m
Cost of Service	9,109	9,668	9,920	10,156	10,453
Reserve Movements	1,204	1,041	962	1,050	1,153
Other	(164)	(175)	(182)	(192)	(192)
Projected Revenue Budget	10,149	10,534	10,700	11,014	11,414
Government Grants	604	380	380	380	380
New Homes Bonus	1,189	1,015	897	957	1,096
Business Rates	4,274	4,164	4,345	4,534	4,730
Council Tax	3,811	3,936	4,105	4,276	4,455
Projected Funding	9,879	9,496	9,728	10,147	10,662
Contribution from Reserves to balance budgets	270	1,039	973	866	752

14.5 The MTFS is reviewed and refreshed on an annual basis to take account of new and emerging changes in actual income and expenditure and any revised forecasts. As the table above shows there is considerable further work required to bring the Council's budget into a balance position over the life of the MTFS.

15 Bridging the Funding Gap

15.1 In light of the projected funding gap of £752k at 2023/24 and with further funding challenges anticipated from the Fair Funding Review it would be imprudent of the Council not to take steps to bridge the funding gap.

15.2 Members have three separate reports:

- Homelessness Temporary Accommodation Options 2020-21 onwards
- New Homes Bonus – Community Grants
- Council Tax – Changes to Discounts and Premiums Policy

These reports outline potential savings which if approved by members would contribute towards the setting of a balance budget. The Council can also bridge some of the identified deficit by deciding to raise Council Tax in 2019/20.

15.2.1 Increasing the Council Tax in 2019/20 by £5 for a Band D equivalent (circa 3.15%) would reduce the projected deficit as details below:

	£'000
2019/20	119
2020/21	120
2021/22	122
2022/23	123
2023/24	128

15.2.2 Changing the Councils Tax Discounts (Empty and Unfurnished) and Premiums (long term empties) as detailed in the separate report would contribute to the deficit as detailed below: The figure below ignore the impact of any future Council Tax increases.

Members should note that the changes to the Council Tax Discounts and Premiums were recommended by an Internal & Overview Scrutiny Task & finish Group.

	£'000
2019/20	35
2020/21	44
2021/22	46
2022/23	46
2023/24	46

15.2.3 In recognition of the deficit faced by the Council in 2019/20, it is proposed that the funds allocated from New Homes Bonus monies for Community and Member Grants are reduced by £115k to bring the 2019/20 budgets back into balance. The funds available for Community and Member Grants for 2019/20 would then be £153k.

Members should note that 2019/20 is the final year under the current New Homes Bonus rules.

15.2.4 The bridging of the 2019/20 deficit of £270k by the proposals above are detailed below:

	£'000
Raise Council Tax	119
Changes to Council Tax Discounts/Premiums	69
Reduced Community & Member Grants	116
Subtotal	270

15.2.5 The separate Homelessness Temporary Accommodation Report contains further details regarding the options available to mitigate the pressures the Council is facing with regards to temporary accommodation placements

The advantages of each are summarised below:

- **Raising Council Tax in 2019/20 by the Referendum Limit (£5 Band D)**
 - Central Government assessment of resources available to Torridge will assume the Council Tax will increase
 - Council Tax is the Council's most stable form of income
 - Torridge's share of the total tax charged is relatively small so the impact of a Torridge increase is relatively minor to the individual tax payer
 - Contributes to the deficit identified within the MTFS
- **Council Tax Discounts and Premiums**
 - Reducing the discount for empty and unfurnished properties from 3 months to 1 month brings Torridge more in line with neighbouring authorities
 - Raises additional Council Tax and contributes to the MTFS identified deficit
 - Increasing the Council Tax charged for long term empty properties should incentivise owner to bring their properties back into occupation
 - Raises additional revenue for Torridge's preceptors

Risk Assessment

16 The major risks associated with the achievement of both the Budget 2019/20 and the MTFS is that the major assumptions and forecasts highlighted in paragraph 14.2.1 are significantly different to that considered to be the position now. They are forecasts so we do expect them to change in both positive and negative ways and the Finance Team regularly monitor and update our forecast position when new information comes to light.

Implications

Legal Implications

The Council is required to set a balanced annual budget.

Financial Implications

These are contained in the report.

Human Resources Implications

These will form part of the detailed budget consideration.

Sustainability Implications

These will form part of the detailed budget consideration.

Equality/Diversity

These will form part of the detailed budget consideration.

Risk Management

The Council will be required to reduce net expenditure over the medium term. The MTFS (section 14) indicates the level of reduction required and reduces the risk of not achieving a balanced budget or identifying savings that are not achievable.

Compliance with Policies and Strategies

Forms part of the strategy process.

Lead Member Views

Councillor Hurley:

Date of Consultation – 24th January 2019

“Whilst it is always difficult to recommend and justify a decision to increase the Council Tax in any year, it is my opinion that small yearly increases are preferable to sporadic much larger increases. It is now clearer than ever that in the relaxation of Government controls it is recognised that there is no additional money at a national level to plug the growing financial gap in providing services locally and the importance of Council Tax grows year on year.

We can see from the report that Torridge is in a relatively good financial position compared to other Councils across the country but we still have substantial forecast budget gaps in the future to address. Council Tax is one of few areas that we have control over to manage our finances and we must plan not just for next year, but for the future and, therefore, I support the recommendations in the report.

Conclusions

- 17 The report highlights the challenges faced by Torridge Council in an increasingly uncertain environment. Previous financial prudence has generated reserves which allow the Council time to bring its budgets back into balance over the course of the MTFS. .

Recommendations:

Recommend to Full Council

18 That Members note the following

- a) Note the Chief Finance Officer (s151 Officer) assurance of the robustness of the budget 2019/20 set out in section 12 of the report.
- b) Note the assumptions and forecast applied to develop the MTFS outlined in section 14
- c) Note the forecast deficit of £0.752m in the MTFS for 2023/24
- d) Note the risks associated with the Budget 2019/20 and MTFS outlined in section 16
- e) Note that a Joint Internal & External Scrutiny committee will review the grants made to external bodies for the financial year 2020/21.

That Members approve the following

- f) Torridge's Band D Council Tax for 2019/20 be increased by £5 (3.15%) from £158.86 to £163.66 per year
- g) The changes to Council Tax Discounts and Long Term Empty Premiums detailed in the separate report are approved.
- h) £115k is top-sliced from the New Homes Bonus – Community Grants Allocation
- i) Torridge's Net Revenue Budget 2019/20 is £10.149m.

- j) *The contributions to the Council's reserves as outlined in paragraph 10.4 are approved.*
- k) That the Head of Paid Service, Senior Management and the new council review and revise the strategic plan & priorities and prepare options to achieve the savings going forward.

SUPPORTING INFORMATION

Consultations: Date of Consultation – 24 January 2019

Leader - Councillor J Whittaker
Deputy Leader – Councillor D Hurley

Officers Consulted –
Head of Paid Service
Senior Solicitor

Contact Officer: Steve Hearse – Strategic Manager (Resources)

Background Papers:

