

REPORT OF Strategic Manager (Resources)
To: Internal Overview and Scrutiny Committee
Subject: Budget 2020/21, Medium Term Financial Strategy 2020/21 – 2024/25
Date: 11th February 2020 Reference:

PURPOSE OF REPORT: For Members to consider, formulate and recommend the Budget 2020/21 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 2024/25

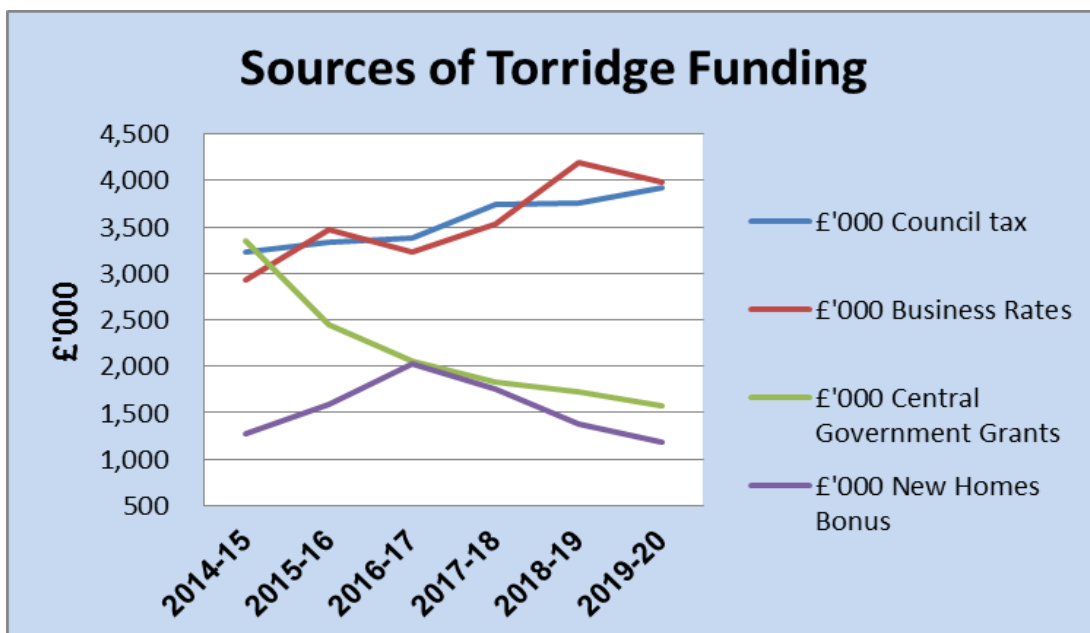
1. Introduction

- 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.
- 1.2. The MTFS provides the basis for the members to consider the 2020/21 budget and also whether an increase in Council Tax should be recommended to Full Council for 2020/21.
- 1.3. Whilst considering the 2020/21 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.

2. Report

- 2.1. The Council's MTFS considers the changing financial situation covering six financial years, 2019/20 (base year) to 2024/25. 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 2019/20 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 previous reductions in Central Government funding.
- 2.3. Local Authorities in recent years have operated in a challenging environment, with significant reductions in Central Government grant funding. Increasingly Councils (particularly Shire Districts such as Torridge) are reliant upon the monies they generate from Council Tax, Business Rates and Fees & Charges. The movement away from central revenue support grant funding and the increased reliance upon Council Tax and Business Rates is illustrated overleaf. .

Torridge Council – Council Tax & Business Rates Income vs Central Government Grant Funding



3. The changing Financial Environment for Local Authorities

3.1 Significant changes to local government financing are due to be implemented effective from the financial year 2021-22. The details of the changes are discussed elsewhere within the report; but included are the following:

- **Comprehensive Spending Review** – This will determine the total value of Central Government spending and the share allocated to the local authority sector.
- **Fair Funding Review** – This will determine the share of the local authority ‘pot’ assigned to individual local authorities such as Torridge District Council
- **Business Rates Retention** – The current system of business rate retention will change, currently Torridge retains 40% of the business rates collected within its area.
- **Business Rates Revaluation** – Periodically the Valuation Office undertakes a review of Business Rates. The aim of the exercise is not to raise more revenue from Business rates (at a national level it is cost neutral) but to reflect changes in market rents between different categories of properties.
- **New Homes Bonus** – Since 2011/12 local authorities have been rewarded for increases in the number of properties liable for Council Tax and reductions in long term empty properties. Central Government has signalled that the current system of New Homes Bonus Funding will be replaced.

4. 2020-21 Provisional Settlement

4.1 Government published the provisional settlement for the financial year 2020-21 in December 2019; the key points to note are:

- **Core Spending Power**

- Central Government have indicated that the Core Spending power for Councils in 2020-21 will be 6.3% higher in cash terms (4.4% in real terms), the increase for in Core Spending power for shire districts being only 3.4%. It should be note that 54% of the increase in Core Spending power relates solely to allowable increases in Council Tax **not extra money** from Central Government. Core spending power consists of

- Revenue Support Grant
- Retained Business Rates and Section 31 grants (compensation for increases to Business Rates reliefs etc)
- New Homes Bonus Income
- Rural Services Delivery Grant
- Additional Social Care Grants (not applicable to Torridge)
- Income from Council tax - assuming that the tax base grows and that councils **increase council tax up to their Referendum Limit.**

- **Council Tax Referendum Limits**

- The Council Tax referendum limits for Shire Districts such as Torridge will be £5 increase for a Band D equivalent property or 2% which ever is the greater. A £5 increase to a Band D property within Torridge equates to 3.06%.
- Upper tier authorities such as Devon County Council and Devon & Somerset Fire Authority can increase their Council Tax by 2%.
- The continuation of the adult social care precept at 2% was confirmed; consequently upper tier authorities such Devon County Council can increase their Council Tax by 4% (2% Core plus 2% Social Care Precept).
- Police and Crime Commissioners Council Tax Referendum are £10 per Band D equivalent, for Devon & Cornwall Police Commissioner this equates to 4.7%.
- There are no referendum limits for Town and Parish Councils

- **Rural Services Delivery Grant (RSDG)**

- 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. The RSDG for 2020/21 has been confirmed at the same level as 2019-20 (£474k).

- **Revenue Support Grant (RSG)**

- Central Government has provided an inflationary uplift to Torridge Council's Revenue Support Grant, the funding for 2020-21 being £132k, previously it had been assumed that 2019-20 would be the last year that Torridge received Revenue Support Grant Funding.

- **New Homes Bonus**

- Central Government allocated an additional £7m 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. However in anticipation of the New Homes Bonus scheme being replaced; councils will only retain the reward from increases to the numbers of properties liable for Council Tax and reduction in the number of long

term empty properties accrued in 2019 for one year (previously the reward was payable for four years).

- **Social Care Grant Funding**
 - Central Government has confirmed there will be a new Social Care Grant of £1.41 billion for adult and children services. Of this £420million is a direct continuation of the 2019/20 Social Care Support Grant, with an injection of £1billion new funding in 2020-21. As a shire district Torridge Council does not have responsibility for adult social care.
- **Better Care Funding (BCF)**
 - The 2020-21 Better Care Fund is composed of the 2019-20 amount of £1.837 billion) and the £240 million paid for winter pressures, making £2.077 billion in total. Torridge Council uses BCF to undertake disabled adaptations and to support energy efficiency measures within homes. Torridge's BCF in 2019/20 is circa £1.1m. Specific allocations are normally received after the start of the financial year.
- **Homelessness funding**
 - Central Government has confirmed the Flexible Homelessness Prevention Funding for 2020-21 in line with the 2019-20 allocation; for Torridge this is £144k.

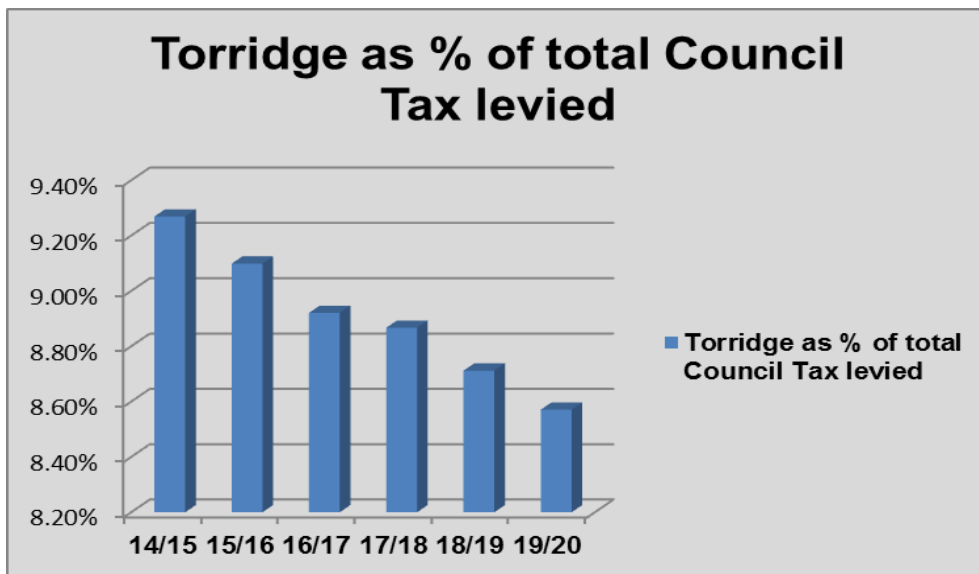
5. Council Tax

- 5.1 Central Government assessment of Core Spending Power (the resources available to local authorities) is built on the expectation that Council Tax will increase year on year in line with the approved referendum limits; currently 2% or £5 per Band D Equivalent.
- 5.2 In 2019-20 the average Band D equivalent Council Tax within Torridge is £1,909.56 of which the amount levied by Torridge Council was £163.66, with an estimated collectable tax base of 23,767 Band D Equivalent properties. This equates to a Council Tax income of £3.889m for the financial year 2019/20.
- 5.3 On the 9th December 2019 Full Council approved the tax base for 2020-21 at 24,579.
- 5.4 Whilst by statute councils are obliged to report their tax base in Band D equivalents and increases to Council Tax are referenced to the Band D equivalent, however the majority of properties within Torridge fall within Bands A-C. The table below shows the number of properties liable for Council Tax by band, the Torridge element of the Council Tax levied and the how much a £5 increase on a Band D Equivalent would be by Band for 2020-21.

Council Tax Band	Number of Properties	2019-20 Torridge Charge	Impact of £5 increase to Band D
Band A	8,189	£109.11	£3.33
Band B	7,234	£127.29	£3.89
Band C	6,948	£145.48	£4.44
Band D	5,732	£163.66	£5.00
Band E	3,317	£200.03	£6.11
Band F	1,089	£236.40	£7.22
Band G	374	£272.77	£8.33
Band H	28	£327.32	£10.00
Total	32,911		

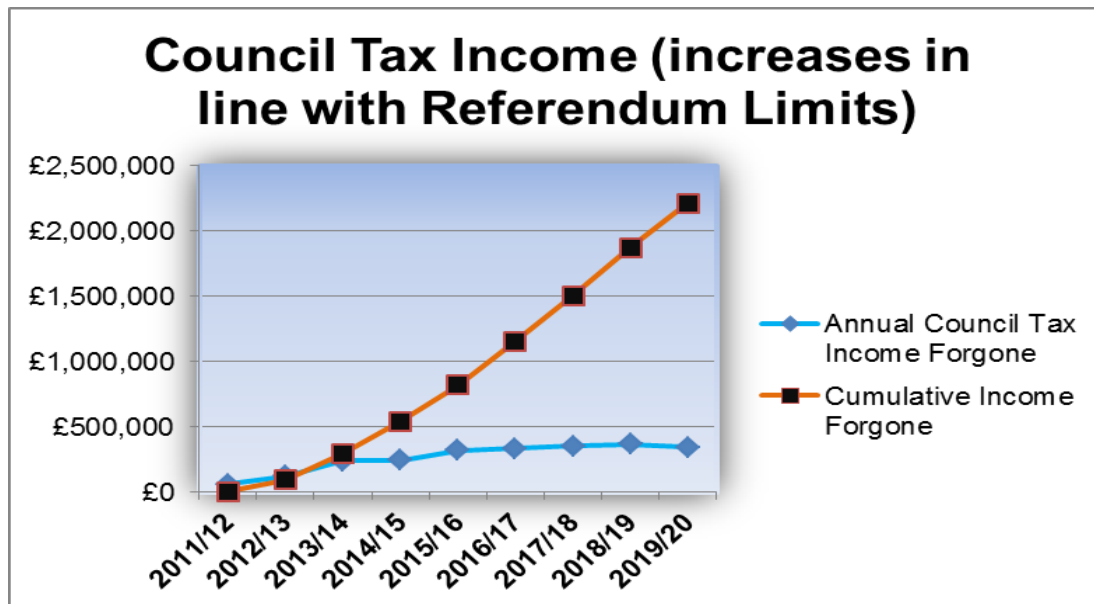
As the table above shows 68% of properties within Torridge fall within Bands A – C and so would pay less than the £5 equivalent referendum limit.

- 5.5 As alluded to in 5.2, the Council Tax levied by Torrridge is only one component of the Council Tax bill levied on its residents. Over recent years the proportion of Council Tax levied by Torrridge Council has been in decline. This due to a combination of factors such as Devon County Council, raising a social care precept, Devon and Cornwall Police Commissioner Referendum limit in 2019-20 being 12.75% and absence of referendum limits for Town and Parish Councils.



The proportion of Council Tax raised relating to Torrridge Council is expected to decline further in 2020-21 as Devon County Council are anticipated to raise an additional social care precept of 2%, and Devon & Cornwall Police and Crime Commissioner are anticipated to increase their Band D council tax by £10. In addition, in the absence of referendum limits for Town and Parish Councils; their proportion of the total Council Tax bill is anticipated to rise.

- 5.6 It is vitally important to consider the longer term 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. Once a decision has been made to not increase Council Tax, it is not possible to make up the “shortfall” in the subsequent financial years. Referendum limits do not accommodate previous years below referendum level increases.
- 5.7 Members in previous financial years 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 of freezing the Council Tax in prior years has had upon the income the Council can currently collect from Council Tax.



6. Business Rates Retention

- 6.1 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.
- 6.2 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 business rate 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 being compensated for the loss of business rate income resulting from increased reliefs by Section 31 Grants.
- 6.3 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 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.
- 6.4 Past experience informs that following such revaluations there is an increase in the number of business rate appeals lodged. There are currently 19 outstanding revaluations against the 2010 valuation list, with a total rateable value of £4.08m. The Council has set aside a provision against the future settlement of these appeals of £956k, of which Torridge's share at 40% is £382k.
- 6.5 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.
- 6.6 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 twelve 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.

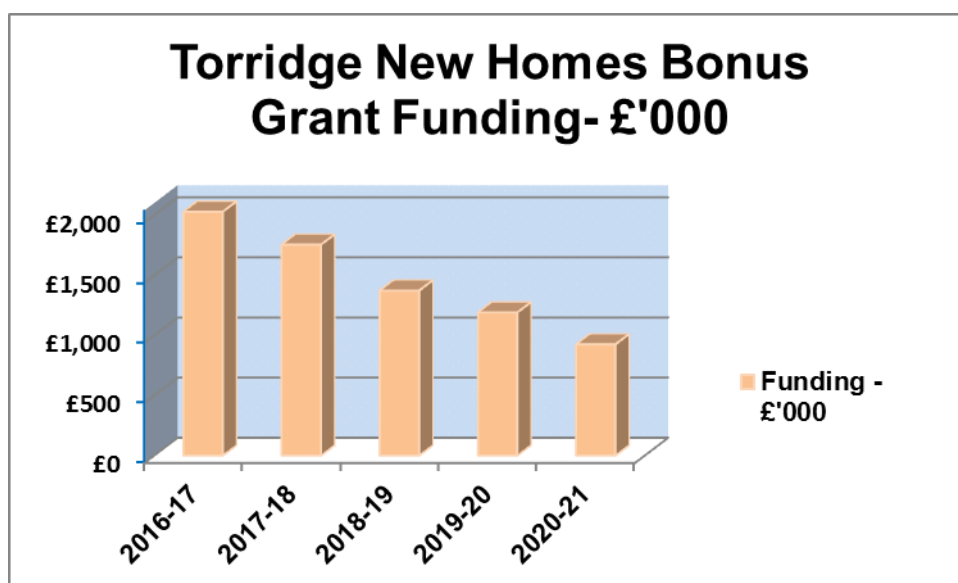
- 6.7 Since the inception of the Business Rate Retention Scheme in 2013/14 there has been an underlying growth in the Business Rate Base within Torridge. In addition to new businesses at Caddsdwn such as Aldi, Lidl, Brewers Fayre, Premier Inn etc; there has been a growth in the number of properties registered as holiday homes and subject to Business Rates.

In the Queens' speech in December 2019, the Government indicated that it would increase the business rate relief offered to independent shops, cafes, bars and pubs from 33% to 50%. The relief would also be extended to include independent cinemas and grass route music venues. At the time of writing this report these reliefs have not passed through the legislative process and therefore may not be implemented in time for the 2020-21 business rates billing.

New Homes Bonus (NHB)

- 7.1 New Homes Bonus was introduced in 2011/12; it rewarded Councils for increases in the number of properties liable for Council Tax within their areas. Local Authorities were also rewarded for decreases in the number of long term empty properties (over 6 months). Initially the rewards earned by Councils were retained for 6 years; however this reduced to 4 years by 2018/19.

Also in 2017/18 the Central Government introduced a deadweight adjustment of 0.4%; essentially Councils only received NHB funding for housing growth **above** 0.4%. The impact of these changes has been to reduce the level of NHB income received, as illustrated below;



Currently New Homes Bonus funding is allocated as follows:

- 50% to support the Council's Capital Program
- 25% to support the Council's Revenue budgets
- The balance (after a top slice of £115k) is allocated for member/community grants.

In light of reductions in New Homes Bonus funding, and the demise of the current funding arrangements from 2021/22; Internal Overview and Scrutiny on the 19th December recommended that no monies will set aside from NHB to funding community grants in 2020/21.

It should be noted that a significant proportion (68% in 2020-21) of the NHB grants monies assigned to Capital are earmarked for the Vehicle Replacement reserve from where replacement refuse and street cleansing vehicles are funded. Further reductions in NHB funding will result in pressures on the revenue budgets as contributions into the Vehicle

Replacement Reserve will still have to be maintained, and or a replacement grant is allocated.

7. Budget 2020-21

- 8.1 Full Council on the 25th February 2019 agreed a net revenue budget of £9.996m for 2019/20; the Medium Term Financial Strategy (MTFS) highlighted to members a deficit for 2020/21 of £760k declining to £463k by 2023-24.

The budget setting process for 2020/21 has identified various pressures and savings, which have been incorporated into a revised MTFS, the most significant are expanded upon below:

- **Revenue Support Grant (RSG) and Rural Services Delivery Grant (RSDG)**
 - The provisional settlement confirmed RSG and RSDG funding for 2020/21 at 2019/20 levels. With Central Government indicating an end to “austerity”, the MTFS for the period 2020/21 – 2024/25 assumes grant funding at these levels over the life of the MTFS. The previous MTFS report assumed **no RSG funding** from 2020/21 and a reduced value of RSDG. The favourable movement from the 2019/20 MTFS being £226k.
- **Flexible Homelessness Support Grant**
 - The original allocation of Flexible Homelessness Support Grant (£144k) was fixed for three years, with the last confirmed year of funding being 2019/20. The provisional settlement for 2020/21 confirmed funding for 2020/21. Given the Government’s commitment to eradicating rough sleeping by 2027 it has been assumed within the MTFS 2020/21 – 2024/25 that this funding will continue.
- **Contribution to the Council’s Pension deficit**
 - On a triennial basis the Council’s employee pension scheme is reviewed to ascertain if employer pension contributions are sufficient to meet the future pension liabilities of current employees. The scheme is also reviewed to ascertain what levels of contributions are required to clear the underlying pension deficit within an agreed timescale.

The previous MTFS assumed that contributions to the underlying pension deficit in respect of existing and deferred pensioners **would rise by £110k** in 2020/21 with additional annual contributions of £260k by 2023/24. The result of the triennial review saw contributions to the underlying pension deficit **fall by £97k** for 2020/21, a saving of £207k from previous assumptions. This is the first time that there has been a reduction.

- **Homelessness**
 - The 2019/20 homelessness budgets were increased by £200k, reflecting increased temporary accommodation costs arising from increased numbers presenting themselves as at risk of homelessness. Also the Homelessness Reduction Act put additional homelessness obligations upon local authorities, as report to Community & Resources on the 4th February 2019. The difficulty in securing ongoing sustainable tenancies at LHA (Local Housing Allowance) rates compounded the problem, increasing the average length of stay within temporary accommodation
 - The introduction of a triage role within the Housing Option team has focussed the provision of homelessness support upon the Council’s statutory obligations. In addition, Homelessness prevention measures have further reduced the numbers of clients placed in temporary accommodation, consequently a saving of £60k can be realised in the 2020/21 budgets.

- **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
- One of the key incentives behind the revised waste collection service was the anticipated additional recycling credits and cost share income from Devon County Council. Essentially Torridge Council is rewarded for additional waste diverted from land fill in accordance with a cost share agreement.

Whilst the increased volumes of recycling tonnages are known to the Council, cost share income is also dependant upon the onwads disposal costs incurred by Devon County Council in their role as the disposal authority. This information was not fully known when setting the 2019-20 budgets. It is anticipated that additional cost share income of £125k per annum can be anticipated; for 2020/21 only it is proposed to set aside these monies to reserve to contribute towards the capital costs of a new Refuse and Recycling depot.

- When the revised refuse service was established the budgets required were estimated; now that the service has been operating for over a year, the resources required to run the service are more accurately known. A reduction in transport related costs of £75k has been incorporated with the MTFS.
 - The MTFS does not currently forecast any further budgetary changes as a result of the implementation of a new Waste and Recycling Depot. This will be done when a clearer project timetable for delivery is developed.
- **Staffing Efficiencies**
 - With the roll out of Universal Credit, there has been a significant decline in the volume of Housing Benefit payments processed by the Council. Consequently as vacancies within the Housing Benefit team have arisen vacant posts have not been recruited to. Some staff have also been reassigned to the Council Tax team
 - With the closure of the Bridge Street office and the consolidation of reception services onto one site, efficiencies within the customer services / reception can now be realised. Staff efficiencies totalling £275k are incorporated into the MTFS.
 - The Council experiences in the normal course of business an element of staff turnover. Traditionally the Council has set a vacancy target of £100k, previous years experience has indicated that this target can be increased to £150k.
 - **Building Sector Inflation**
 - The Council has experienced significant inflationary pressures pertaining to building/construction works. It is proposed to increase the contribution to the property maintenance reserve by £75k.
 - **Renewable Energy – Business Rate Income**
 - Billing authorities such as Torridge **retain all the business rates** from renewables such as solar and wind farms where planning permission was **given after the 1st April 2013**. Upon review a proportion of the business rates levied upon an Andigestion plant pertained to a planning permission awarded prior to the 1st April 2013, consequently the proportion of the business rates for this facility retained wholly by Torridge Council have been revised downwards by £237k.
 - **Climate Change**
 - In light of the Council declaring a climate emergency it is proposed to set aside a sum of £10k to support members identifying their climate change priorities.

8.2 **Initial MTFS Assumptions**

As discussed in 3.1, there are significant changes anticipated for local government financing which will come into effect from 2021-22. However as a starting point the MTFS will project over the period 2020/21 to 2024/25 based upon the current funding rules; before discussing the potential impact of the 2021-22 changes.

The key assumptions used as a starting point for the MTFS are:

- Pay award 3% 2020/21, 2.5% 2021/22, 2% for the remainder of the MTFS....Central Government has announced an increase to the National Living Wage of 6.2%, this doesn't not impact on the Council's pay bill as its lowest hourly rate is in excess of the national living wage.
- Business Rate growth of 1.18%
- Revenue Support Grant, Rural Services Delivery Grant and Flexible Homelessness Prevention Grant to continue for duration of MTFS
- Council Tax increases up to the Referendum Limits ^^
- No change to New Homes Bonus funding rules

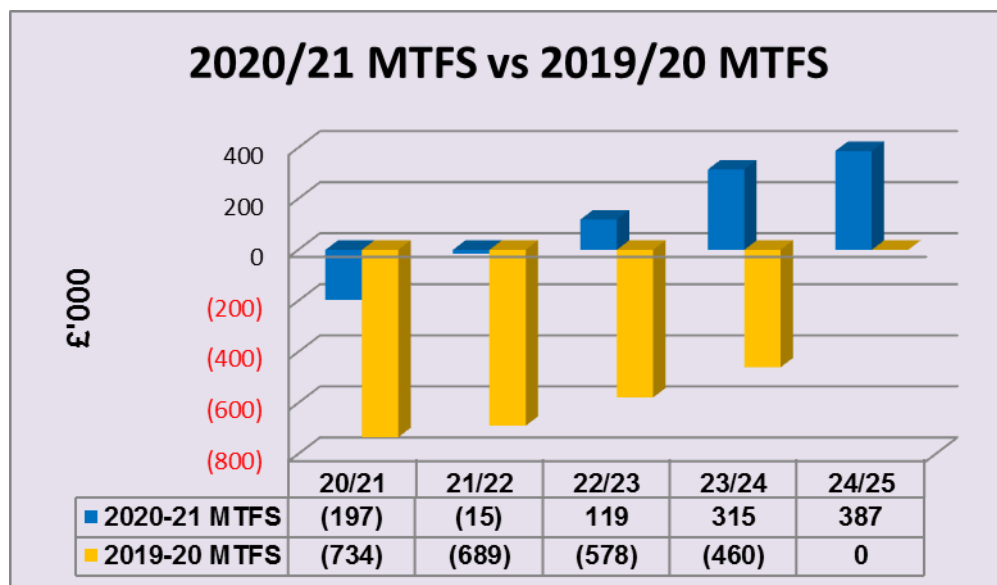
8.3 The tables below summarises the major movements on funding and expenditure identified since the Council's MTFS was last reported to members in February 2019, **based upon the current system of local government financing.**

	2020-21 <i>favourable</i> <i>/(adverse)</i>	2021-22 <i>favourable</i> <i>/(adverse)</i>	2022-23 <i>favourable</i> <i>/(adverse)</i>	2023-24 <i>favourable</i> <i>/(adverse)</i>
Movement from 2019-20 MTFS				
Funding Movement	£'000	£'000	£'000	£'000
RSG & RSDG Funding	226	237	247	258
New Homes Bonus Grant (NHB) *****	(91)	(72)	(50)	(25)
Business Rate Income from renewables	(237)	(243)	(250)	(256)
Business Rate Income	(58)	80	80	119
Council Tax Surplus 2019-20	40	0	0	0
Council Tax Income	3	4	6	(2)
Subtotal	(117)	6	33	94
Expenditure				
Reduced contribution to pension deficit	208	204	200	200
Homelessness Grants / Reduced Temp Accommodation Expenditure	226	226	226	226
Cost Share Income & transport related costs	200	200	200	200
One Off Savings	66	0	0	0
Insurance tender	50	50	50	50
Crematorium Income	47	47	47	47
Increased vacancy saving target	50	50	50	50
Planning Income	(60)	(60)	(60)	(60)
Inflation	(57)	(57)	(57)	(57)
Salary costs - pay awards, increments, staff efficiencies	48	(38)	(27)	(26)
Other savings and pressures	11	25	(20)	(6)
Subtotal	788	647	609	624
Transfer to, or from Reserves				
Contribution to capital costs of Refuse Depot	(125)	0	0	0
Transfer to Capital Reserve from NHB funding	46	36	25	13
Transfer to Community Grants from NHB funding	23	55	56	70
Transfer to Property Maintenance Reserve	(75)	(75)	(75)	(75)
Transfer to Economic Regeneration reserve	(42)	(42)	(42)	(42)
Transfer from reserves to fund posts	38	47	91	91
Subtotal	(135)	21	55	57
Favourable Movement from 2019-20 MTFS	536	674	697	775

***** Assumes **NO change** to current New Homes Bonus funding rules

^^ It is expected the new funding arrangement for local government to be introduced on 2021-22 will use national average Council Tax Band D figures to calculate the resources element of the formula. Torridge Council is currently £21.61 below the national average, and so will be assumed by Central Government to have the ability to raise £530k more in Council Tax than is the actually the case.

The projected MTFS surplus/(deficit) compared to the position reported in February 2019 (**based upon the current local authority financial regime**) is shown below: **(figures in brackets represent a deficit)**



9 Funding 2021/22 onwards

9.1 The recent local authority settlement announced by Central Government only covered the financial year 2020/21. As alluded to in 3.1 above, major changes to the regime for local authority financing are anticipated. The details of the changes are not fully known but some broad judgements can be made. Whilst Central Government has indicated an end to “austerity” with any changes to a funding regime there will be relative winners and losers, unless the overall quantum of resource increases and or Adult/Children social care costs are funded separately.

9.2 Comprehensive Spending Review. (CSR)

The start point for the changes to local authority funding is the Comprehensive Spending Review, which will determine the overall level of funding allocated by Central Government to the local authority sector. As Central Government have indicated an end to austerity it would be reasonable to assume an increase (at least in cash terms) to the overall level of funding allocated to the local authority sector.

The 2020/21 settlement would appear to indicate that government priorities with the local authority sector are focussed primarily on adult social care, education and homelessness, only the latter of which is a responsibility undertaken by Torridge Council.

9.3 Fair Funding Review

The fair funding review assesses both the relative “needs” of local authorities and the resources available to them. There are numerous variables which contribute to the fair funding formulae. For a shire district like Torridge population and rural sparsity will be by far the most significant components. Other factors such as adult social care, education, highways etc do not contribute towards funding for a shire district like Torridge.

It is important to note that in addition to assessing the “needs” of local authorities, the fair funding review also considers the resources local authorities can generate to meet their needs. The fair funding review of resources will **assume local authorities increase their council tax up to their referendum limit, and that there will be growth in the council tax base of 2%.**

The fair funding formula is due to be consulted upon in Spring 2020, so at this juncture it is not known if Torridge will be a relative winner or loser under the new arrangements.

9.4 Business Rate Retention

The current system of Business Rate Retention was introduced in April 2013. Prior to the 1st April 2013 local authorities collected business rates on behalf of Central Government. Any decline in business rates due economic downturn, appeals, increase charitable and other mandatory reliefs etc were borne by Central Government; conversely the benefit of growth in the business rate base was retained by Central Government. Billing authorities such as Torridge were not impacted financially by the economic activity in their area.

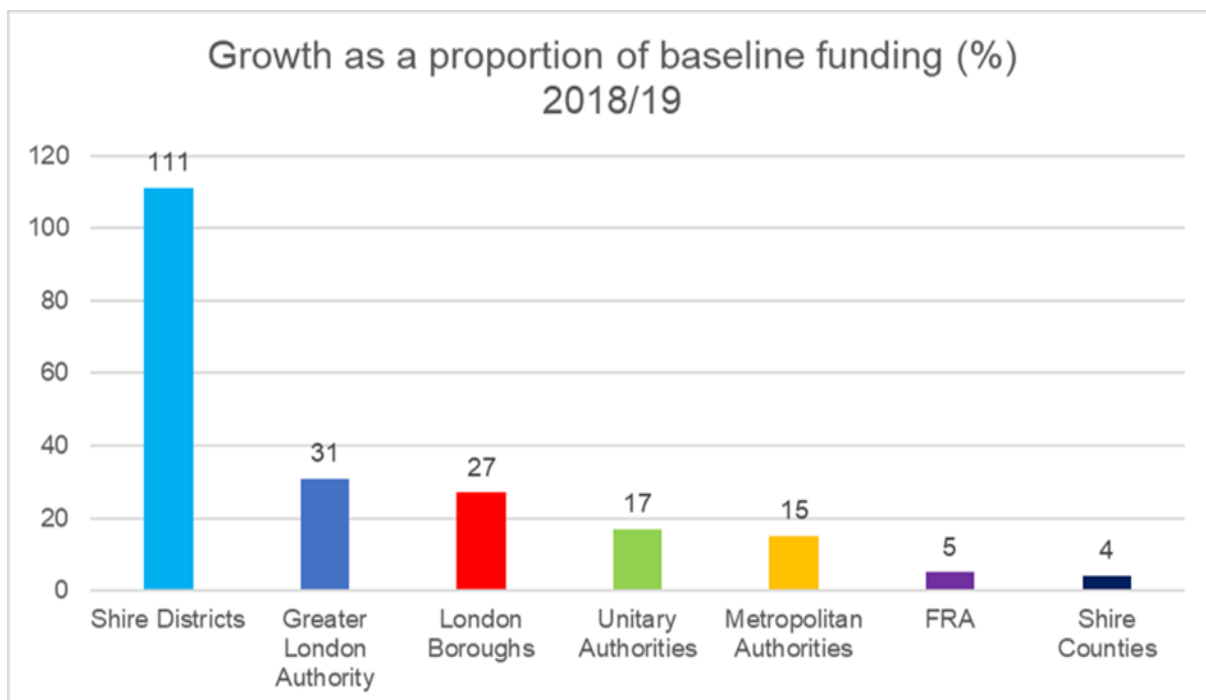
With the introduction of local Business Rate Retention in April 2013, 50% of business rates were retained locally, 40% being retained by billing authorities such as Torridge, 9% to upper tier authorities such as Devon County Council and 1% to Fire Authorities; the balance (50%) being retained by Central Government.

Central Government is proposing that from 1st April 2021 that 75% of business rates are retained locally, with the balance of 25% being retained by Central Government. The splits between the various local authority sectors have yet to be determined.

In addition to increasing the local retained element of business rates to 75% from 50%, Central Government have also indicated that they intended to change the current operation of the business rates retention system, to remove the variability caused by business rate appeals. The new business rate retention system is due to be consulted upon in spring 2020.

Since the introduction of business rate retention in 2013 shire districts such as Torridge have benefited significantly, whilst shire counties have only seen modest benefits from the introduction of business rate retention. This is due to the relatively high percentage of business rates retained by shire districts (40%) and their relatively low need (i.e. they don't have responsibility for adult social care, education, highways etc.). Conversely shire counties like Devon County Council retain a relatively low percentage of business rates (9%) whilst having high need (adult social care, education, highways etc.).

The table below shows the growth in funding from business rates by local authority sector, as is clear shire districts have been by far the main beneficiaries of the current system. For Torridge the annual income growth from business rates retention is **circa £750k**.



As the table clearly shows shire districts have been by far the main beneficiaries of the current business rate retention scheme. Any new business retention scheme introduced will involve some form of funding reset. It is not known at this juncture how much of the business rate growth shire districts like Torridge have enjoyed since 2013 they will be able to retain. It would be prudent to conclude the new system of business rate retention will involve ***some transfer of resources from shire districts to shire counties.***

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 2021 will materialise.

9.5 Business Rate Revaluation

Central Government has announced that the next Business Rates revaluation will take place in 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. For local authorities Central Government adjusted their business rate tariffs to neutralise the impact of increase/decrease business rate income arising from Business Rate Revaluation.

However changes to business rate income from renewable energy schemes were excluded from the “fiscally neutral” element of the business rate revaluation. Torridge retains 100% of all business rates from renewable energy, circa £553k in 2020/21 consequently there is a risk to Torridge’s funding if renewable energy schemes suffer a downward valuation in 2021/22.

Business Rate revaluations are undertaken to adjust rateable values to reflect changes in the property market.

Previous Business Rate Revaluations have been a catalyst for generating business rate appeals from those businesses which have seen increases in their rateable value.

9.6 New Homes Bonus (NHB) Grant Funding.

Central Government have announced that 2020/21 will be the last year of the current New Homes Bonus scheme. A replacement scheme has been signalled but no information is as yet is available regarding what form this will take.

Under the current scheme Councils are rewarded for four years for increases to the number of properties liable for Council Tax (the same applies to reductions in long term empty properties – over six months). However with the demise of the current scheme the reward earned for increased property numbers in 2019/20 will only be paid in 2020/21. Legacy rewards earned in prior years are expected to be honoured.

The table below illustrates the decline in funding from the current New Homes Bonus Scheme.

New Homes Bonus Funding - Current scheme						
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Reward earned (2014/15 increasd property numbers)	326,392	0	0	0	0	0
Reward earned (2015/16 increasd property numbers)	440,254	440,254	0	0	0	0
Reward earned (2016/17 increasd property numbers)	388,873	388,873	388,873	0	0	0
Reward earned (2017/18 increasd property numbers)	216,647	216,647	216,647	216,647	0	0
Reward earned (2018/19 increasd property numbers)	0	143,360	143,360	143,360	143,360	0
Reward earned (2019/20 increasd property numbers)	0	0	174,709	0	0	0
Total - New Homes Bonus Funding	1,372,166	1,189,134	923,589	360,007	143,360	-

As the reward earned for increased property numbers in 2019/20 is only paid for one year (2020/21), rather than 4 years as was previously the case, the financial year 2021/22 sees a drop of two years worth of New Homes Bonus reward monies. By 2022/23 the Council will only receive the reward monies earned for increased property numbers in 2018/19. By 2023/24 no funding will be received pertaining to the current New Homes Bonus scheme.

10. Modelling the impact to the MTFs of the 2021/22 changes to Local Authority Financing and other assumptions

10.1 Whilst the detail of the 2021/22 changes to the local authority regime aren't known it would be prudent to model their potential impact on the Council's MTFs, and the impact of not increasing Council Tax up to the Referendum limits.

2020/21 Pay award

Local Authorities pay awards are agreed between the Local Government Association and the relevant unions. The Unions have requested the following

- Introduction of real living wage of £10 per hour
- 10% increase across all other pay points
- One day increase to minimum annual leave entitlement
- A two hour reduction to the working week

The unions recognised that their claim could not be fully funded without additional resources from Central Government.

At this juncture is difficult to make judgement on what the likely pay settlement will be for 2020/21 and for the remainder of the MTFs period.

Assumption

For the purpose of modelling Torridge's MTFs the following is assumed

- 3% 2020/21
- 2.5% 2021/22
- 2% 2022/23 – 2024/25

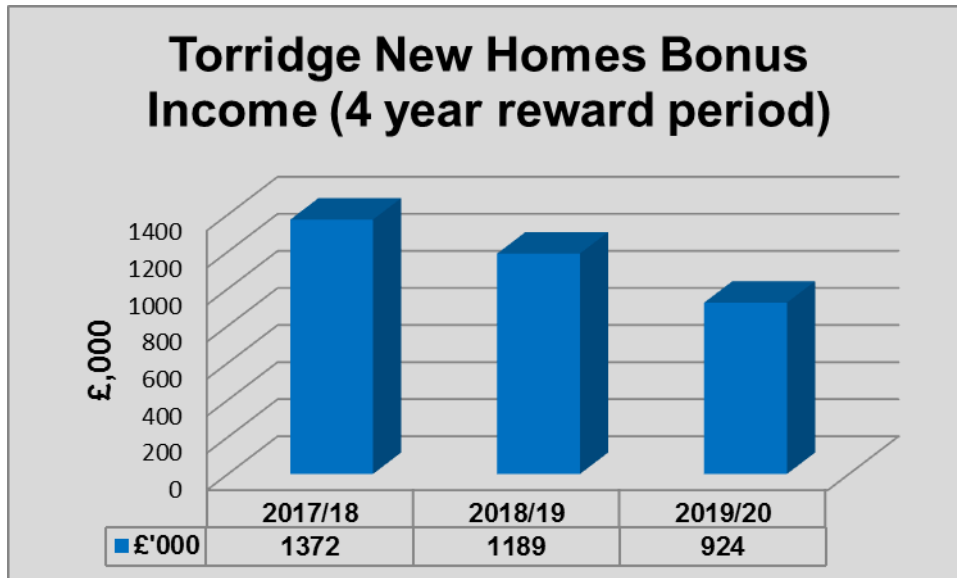
As a point of reference an additional 1% pay award equates to circa £90k per annum.

- **New Homes Bonus Grant Funding**

As detailed in 9.6 the current system of NHB is to be replaced, legacy rewards earned in prior years will still expected to be honoured, but no new reward grant will be earned from 2020/21. By 2023/24 there will be no payments made under the auspices of the current scheme.

Whilst Central Government have indicated that a replacement scheme will be introduced no detail is available at the time of this report. For 2020/21 the last year of the current scheme Torridge's NHB funding is £923k, the level of NHB funding within Torridge has been in decline over the past few years, mainly as a result of

Central Government rule changes but also because of a relative decline in the number of new properties being built (426 in 2016/17 – 242 in 2019/20). The table below illustrates this.



The replacement scheme may be based upon the achievement of additional new housing as outlined in the local plans of councils. With the recent slow delivery of new build properties within Torrige it would be prudent to assume that Torrige may be a relative loser under any new scheme.

Assumption

For the period of the MTFs it is assumed that “replacement NHB” funding will be 75% of the NHB funding to be received in 2020/21

- **75% Local Business Rate Retention**

As detailed in 9.5 above shire districts such as Torrige have benefitted from the introduction of local business rate retention in April 2013. With the move towards 75 percentage local business rate retention there are many variables still unknown.

- What will the split between the different tiers of local government
- How much of the growth in business rate enjoyed since 2013 will local authorities be allowed to retain
- How will outstanding business rate appeals be resolved
- How will the new scheme account for the growth in mandatory reliefs
- What transitional arrangements will be in place for those authorities losing business rate income

Assumption

It would be reasonable to assume that any reset of Business Rate baselines will involve a transfer of resources from shire districts to shire counties. As social care is a Central Government priority as evidenced by the additional grants in the 2020/21 settlement and the continuation of the social care precept; it would be reasonable to assume that the upper tier authorities will retain a significantly enhanced share of business rates going forward at the expense of shire districts. Pertaining to 75% business rate retention the following have been assumed (and modelled):

- shire districts’ share of retained business rate falls to 30% (from 40%)
- Torrige retains 50% of the growth in Business Rate Income achieved since 2013.
- Transitional arrangements mean that the lost business rate income will be phased in over 4 years.
- Underlying Business Rate growth is 1.18%

- **Business Rate Revaluation**

Business rate revaluations are designed to be financially neutral at both a local authority level and national level.

Assumption

The business rate revaluation will be neutral for Torridge, any revaluation movement on renewables (Wind, Solar and Andigestion) is assumed to be immaterial.

- **Council Tax Increase**

The Fair Funding Review which will determines individual local authorities' share of the overall local government funding pot, in addition to assessing the needs of local authorities also takes into account the resources available to them. As stated previously Central Government assumes local authorities increase their Council Tax up to their relevant referendum limit.

Assumption

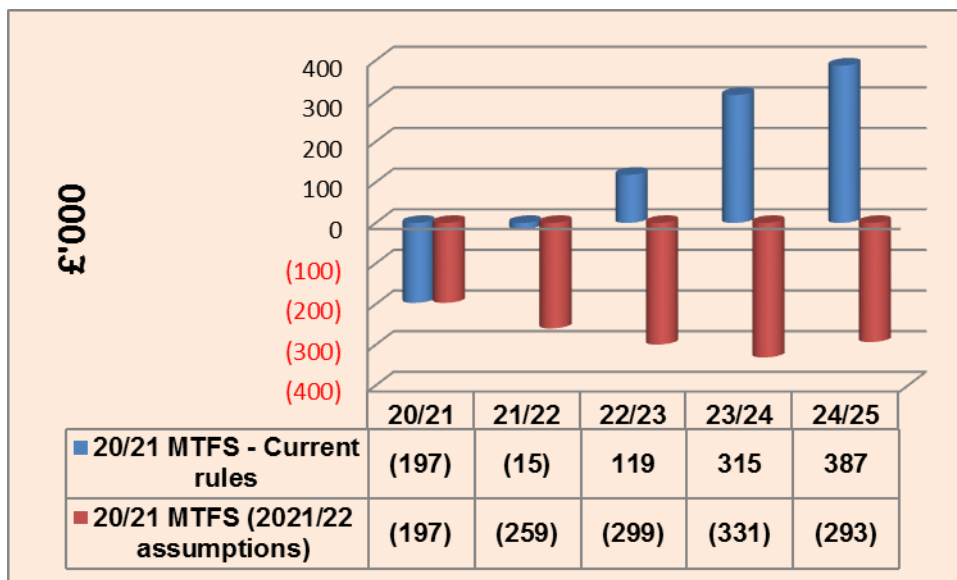
The MTFS modelling assumes the following

- £5 increase to Band D Equivalent for the duration of the MTFS, equates to circa 3%
- Assumption of 1.2% growth to the Council Tax base year on year, circa 285 Band D Equivalents

For reference a 3% increase in the Council Tax equates to £125k per annum for Torridge Council. Consequently each year the Council Tax is not increased up to its referendum limits will add £125k to the Council's deficit.

10.2 The table below summarises the impact of the various assumptions made.

MTFS current funding regime vs projected MTFS based impact of 2021/22 changes



As the table above shows based upon the assumptions detailed above there is currently a projected deficit over each year of the MTFS.

The Council holds monies in a Transition in Government Funding reserve to meet projected revenue deficits. The current balance held in the transition in Government Funding Reserve is £802k, which based on the projections above will be exhausted early during 2023/24.

The projected cumulative deficit over the MTFs period is £1.38m, should the Council Tax not be increased up to its referendum limit in 2020/21 then this cumulative deficit will rise to circa £2.0m.

11. Council Reserves

11.1 In addition to the Transition in Government Funding reserve the Council holds other 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	7,918 ****
Transition in Government Funding Reserve	802
Other Earmarked Reserves	2,396
Total	11,044

*** The Council's capital program is currently over committed by **£1.1m** as detailed in the separate Capital report. The balance shown is prior to the release of funding to meet 2019/20 Capital expenditure.

11.2 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 11.1% of the Council's Annual net budget

11.3 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.

11.4 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 MTFs, based upon the assumptions made regarding the Council's income post 2021/22.

Planned Reserve transfers	2020/21	2021/22	2022/23	2023/24	2023/24
	£'000	£'000	£'000	£'000	£'000
Vehicle Replacement Reserve	554,324	554,324	554,324	554,324	554,324
ICT replacement Reserve	80,000	80,000	80,000	80,000	80,000
General Contribution to Capital	208,470	22,660	22,021	21,369	20,703
General Contingency Reserve	70,000	70,000	70,000	70,000	70,000
Property Backlog Reserve	155,000	155,000	155,000	155,000	155,000
Other Reserves Transfers	3,708	3,708	3,708	3,708	3,708
Total	1,071,501	885,691	885,052	884,400	883,734

Other reserves transfers include contributions to fund posts, such as apprentices.

11.5 Based upon the assumptions discussed above and the movement to /(from) reserves detailed above; the table below summarises the Council's projected budgets over the MTFS.

	2020/21	2021/22	2022/23	2023/24	2024/25
Area	£'000	£'000	£'000	£'000	£'000
Cost of Service	8,833	9,207	9,488	9,800	10,007
Reserve Movement	1,072	886	885	884	884
Other - Financing etc	(167)	(178)	(185)	(195)	(195)
Projected Revenue Budget	9,737	9,915	10,188	10,489	10,696
Government Grants	1,530	1,307	1,317	1,328	1,339
Council Tax	4,144	4,275	4,449	4,626	4,806
Business Rates	3,867	4,073	4,122	4,204	4,258
Projected Funding	9,541	9,655	9,889	10,159	10,403
Contribution from Reserve to balance	197	259	299	331	293

12. ROBUSTNESS OF THE BUDGET

12.1 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

12.2 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 2020/21 to 2024/25 within this report.

12.3 The estimate of income from 2021/22 arising from the following changes (discussed above) represents the greatest uncertainty.

- Comprehensive Spending Review
- Fair Funding Review
- 75% Business Rate Retention
- New Homes Bonus
- Business Rate Revaluations

12.4 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.

12.5 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 2020/21 and the use of financial reserves.

Risk Assessment

13. The major risks associated with the achievement of both the Budget 2020/21 and the MTFS is that the major assumptions and forecasts highlighted in section 10 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 Hodson:

Date of Consultation – 23rd January 2020

“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 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

13. 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

14. That Members note the following

- a) Note the Chief Finance Officer (s151 Officer) assurance of the robustness of the budget 2020/21 set out in section 12 of the report.
- b) Note the assumptions and forecast applied to develop the MTFS outlined in section 10
- c) Note the forecast deficit of £0.293m in the MTFS for 2024/25
- d) Note the risks associated with the Budget 2020/21 and MTFS outlined in section 16

That Members approve the following

- e) Torridge's Band D Council Tax for 2020/21 be increased by £5 (3.06%) from £163.66 to £168.66 per year
- f) Torridge's Net Revenue Budget 2020/21 is £9.737m.
- g) A contribution of £196,531 is made from the Transition in Government Funding Reserve to balance the 2020/21 budgets.
- h) *The contributions to the Council's reserves as outlined in paragraph 11.4 are approved.*
- i) Recommendations made at Internal Overview and Scrutiny Committee 17 December in relation to NHB Community Grants and funding external organisations. – see Appendix A for report.
 - I. No New Homes Bonus grants scheme to run from 2020-21.
 - II. Those organisations who are listed under external grants but who provide a Service Level Agreement for Torridge District Council should be removed from the External Grants list and funding continued at existing levels. However, bodies should submit a break-down of proposed spending at the start of each year to justify their grant and an evaluation at the end of the financial year. This includes the following bodies;
 - North Devon Biosphere Partnership
 - North Devon Coast Area of Outstanding Natural Beauty
 - TTVS
 - Citizens Advice Bureau
 - North Devon Plus
 - North Devon Women's Aid
 - III. Funding for existing recipients to be continued as is for 2020-21, halved for 2021-22 and then ended. Current grant totals provided in brackets below. This includes the following bodies;
 - Holsworthy Community Transport (£6,500)
 - Affinity Bideford TIC (£1,000)
 - Holsworthy TIC (£4,500)
 - Great Torrington TIC (£4,220)
 - Bideford New Year's Eve (£3,000)

- IV. Increased capacity and skill building will be facilitated during the wind-down period. Proposed input will need giving in terms of governance, funding bids, policies, web presence and skills audits.
 - i. Role of the Community Engagement Officer to actively engage with and support community bodies across the district, as well as to map current provision and where gaps exist.
 - ii. Capacity building should be provided to existing grant recipients and other bodies who are operating at a community level who have not previously received grant funding

j) 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 – 23 January 2020

 Leader - Councillor Ken James
 Deputy Leader – Councillor Claire Hodson

 Officers Consulted –
 Head of Paid Service
 Senior Solicitor

Contact Officer: Steve Hearse – Strategic Manager (Resources)

Background Papers: