

REPORT OF Section 151 Officer  
 To: Internal Overview & Scrutiny Committee  
 Subject: Budget 2022/23, Medium Term Financial Strategy 2022/23 – 2026/27  
 Date: 8th February 2022 Reference:

**PURPOSE OF REPORT:** For Members to consider, formulate and recommend the Budget 2022/23 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 2026/27

## 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 2022/23 budget and also whether an increase in Council Tax should be recommended to Full Council for 2022/23.
- 1.3. Whilst considering the 2022/23 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. Recap – Approved budget 2021/22 and Medium Term Financial Strategy (MTFS)

- 2.1 Full Council on the 22<sup>nd</sup> February 2021 approved the Council Tax and Budget for the financial year 2021/22 and the MTFS for the period ending 31<sup>st</sup> March 2026. The MTFS presented showed the projected transfer to (from) the Transition in Government Funding reserve to balance the Council's revenue budgets as detailed below.

	<b>Transfers to (from) Transition in Government Funding Reserve</b>
	£'000
<b>Balance b/fwd</b>	<b>1,208</b>
2021/22	(105)
2022/23	(278)
2023/24	(144)
2024/25	42
2025/26	91
<b>Balance c/fwd</b>	<b>814</b>

- 2.2 The budgets as approved by Full Council on February 22<sup>nd</sup> detailed the following

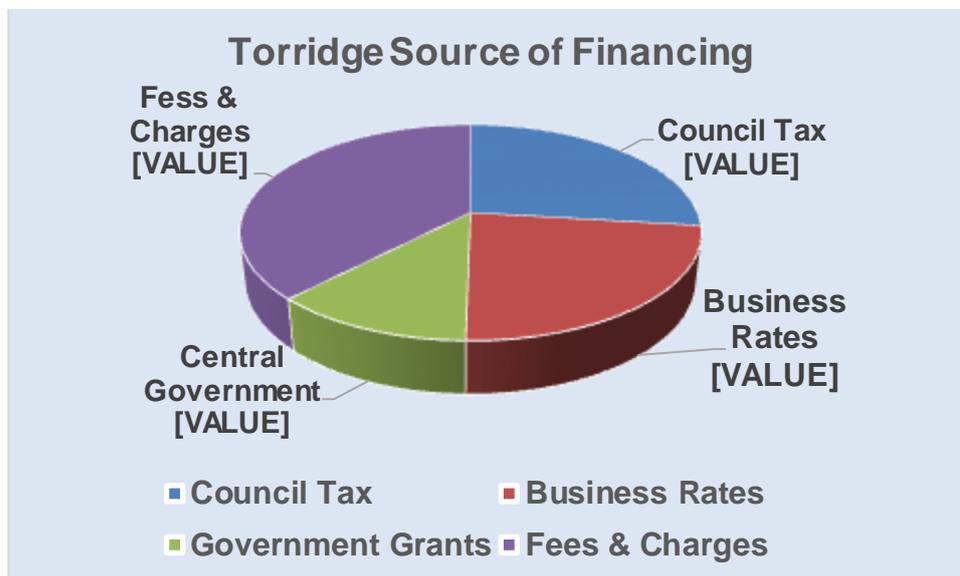
- A balance on the Transition in Government Funding Reserve as at the end of the MTF period (2025/26) of £814k.
- The Revenue budget of the Council returning to balance in 2024/25.

2.3 The Financial reports presented to Council on the 22<sup>nd</sup> February 2021 also included the approval of the Council's capital program and its funding; at this juncture the Capital program was fully funded from identified sources of financing.

### 3. Recap – Sources of Funding for Torridge Council

3.1. Whilst 2021/22 has seen the continuing financial impact of the Covid-19 pandemic, with the Council receiving Central Government Covid related grant income pertaining to its response to the pandemic, it is important to note that the fundamentals of Torridge's income remain largely the same.

Detailed in the chart below, are the budgeted sources of funding for Torridge Council in 2021/22. (\*\* Central Government grant funding relating to the Covid-19 pandemic are excluded).

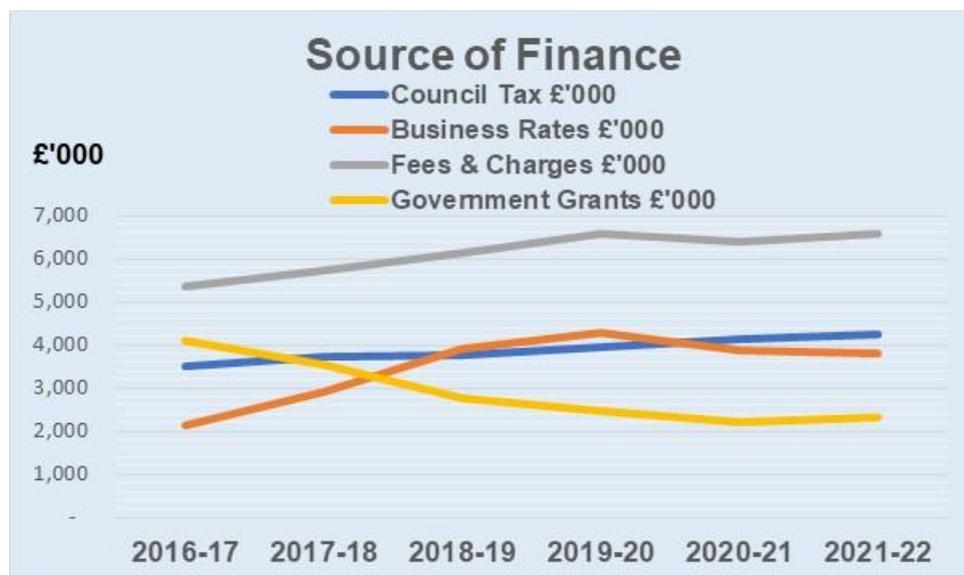


The monetary values of the sources of funding above are:

Fees and Charges	£5.9m
Council Tax	£4.2m
Business Rates	£3.7m
Central Government Grant	£1.9m
Gross Income	£15.7m ****

\*\*\* excludes Housing benefit subsidy circa £13m where the Council acts as an agent for the Department of Work and Pensions.

3.2. Torridge Council along with other District Councils are increasingly reliant upon monies it generates from fees and charges, council tax and business rates, the movement away from Central Government grant funding is illustrated below.



#### 4. 2022-23 Provisional Local Government Financial Settlement

4.1 The provisional settlement was published on the 15 December 2021; the key points to note are:

Central Government have indicated that the provisional settlement will provide an additional £3.5 billion to councils. In real terms to the **Core Spending Power (CSP)** of Councils in 2022-23 will be 4% higher in cash terms compared with 2021-22. However this does not hold true for all councils particularly for those councils without adult social care responsibilities.

The settlement is for one year only 2022/23.

For Torridge District Council the provisional settlement has seen its Core Spending Power (CSP) only increase by 1.1%, which given inflation is circa 5% is **a real term reduction of 4%**.

*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
- Lower Services Grant
- 2022-23 Services Grant
- 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 a £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 2.90%, which is circa **2% below current inflation.**

- Upper tier authorities such as Devon County Council and Devon & Somerset Fire Authority can increase their Council Tax by 2%. The County Council can also raise their Council Tax by a further 1% by way of an Adult Social Care Precept
- Police and Crime Commissioners Council Tax Referendum limit is £10 per Band D equivalent, for Devon & Cornwall Police Commissioner this equates to 4.23%.
- 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 Services Delivery Grant to rural authorities such as Torridge.
  - The RSDG for 2022/23 has been confirmed nationally at £85m as per 2021/22, i.e. there has been **no inflationary uplift**. For Torridge this means its RSDG for 2022/2 remains unchanged at £497k.
- **Revenue Support Grant (RSG)**
  - Central Government has provided an inflationary uplift of 3.3% to Torridge Council's Revenue Support Grant, the funding for 2022-23 being £138k.
- **New Homes Bonus (NHB)**
  - Nationally New Homes Bonus (NHB) funding has reduced from £662m in 2021/22 to £554m, as legacy payments from prior years have ceased. For Torridge this has resulted in a reduction in its NHB funding from £381k in 2021/22 to £275k; **a reduction of £107k.**
- **Social Care Grant Funding**
  - Central Government has confirmed there will be additional funding for Adult & Children's Social Care £1bn. As a shire district Torridge Council does not have responsibility for adult social care.
- **Lower Tier Services Grant**
  - In 2021/22 partly because Torridge suffers a severe decline in NHB funding it received £297k in lower services tier grant funding to ensure it did not see an overall decline in its CSP.
  - Partly as a result of a less severe decline in NHB funding in 2022/23 compared with 2021/22 Torridge's lower tier service grants has been cut by £190k, **with its allocation in 2022/23 reducing to £107k.**
- **Services Grant**
  - For 2022/23 Central Government has provided a new grant to local authorities called the Services Grant, nationally there is £822m allocated to this funding, of which Torridge has been allocated £164k.

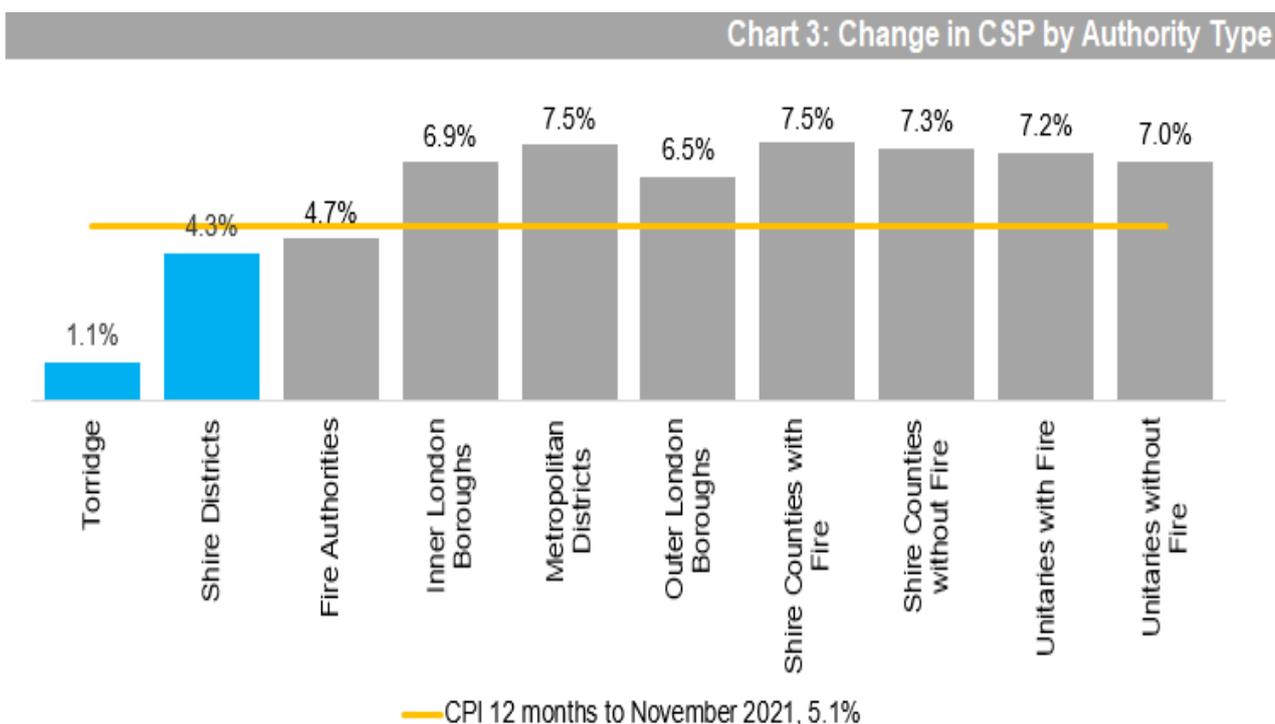
Whilst nationally the £822m been has allocated for the subsequent two financial years; the allocation methodology for the distribution of this funding is only for 2022/23. There is no guarantee that Torridge will receive £164k in subsequent years.
- **Better Care Funding (BCF)**
  - The 2022-23 Better Care Fund remains unchanged at £2.077 billion Torridge's BCF in 2022/23 is not finalised but will be in the region of circa £1m. Specific allocations are normally received after the start of the financial year. These monies are ring fenced for Disabled Facility Grants

- **Homelessness funding**
  - Torrridge's homelessness grant funding for 2022/23 is £246k
- **Covid-19 funding**
  - *In both financial years 2020/21 and 2021/22 Central Government provided substantial funding to local authorities in recognition of both the impact of the Covid-19 pandemic on Councils' finances and in recognition of the additional duties the Council took on in response to the pandemic.*

*The 2021/22 settlement provided Torrridge Council's with Covid funding of £404k, with subsequent Covid grants being received during the financial year 2021/22.*

- *No Covid grant funding has been announced in the provisional settlement.*

The chart below summarizes the impact of the provisional settlement for Torrridge



As the chart above shows the increase in Torrridge's Core Spending Power (CSP) is only 1.1%, which is 4% below inflation as of November 2021. The average for Shire Districts being 4.3%.

Torrridge has done particularly badly with its CSP power due to severe declines in its New Homes Bonus funding (comparatively to other local authorities) and Central Government assumptions regarding resources available to it from Council Tax.

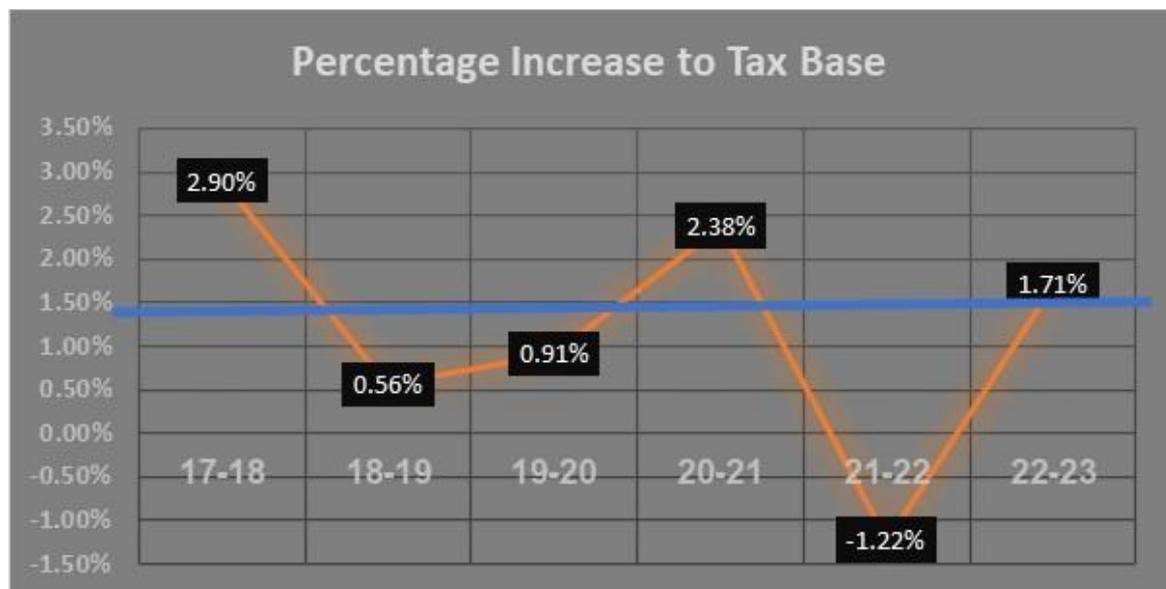
## 5. Council Tax

- 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, whichever is the greater. Central Government also makes assumptions regarding increases in the underlying Tax Base (more residential properties becoming liable for Council Tax).

Central Government assumes an increase to Council's tax base of circa 1.5%, the graph overleaf provides increases to Torridge's Council Tax base over the last few years.

As the table below shows increase in the tax base are variable from year to year; there is a concern that the tax base of Torridge is being undermined with residential properties being reclassified as holiday homes and being included within business rates. The increase of 1.7% for 22-23 being accounted for as follows:

New Build Properties	0.7%
Reduced claims for Local Council Tax Support	0.5%
Increased assumption re collection rate	0.5%



- 5.2 In 2021-22 the average Band D equivalent Council Tax within Torridge is £2,079.36 of which the amount levied by Torridge Council was £173.66, with an estimated collectable tax base of 24,035 Band D Equivalent properties. This equates to a Council Tax income for Torridge of £4.2m for the financial year 2021/22.
- 5.3 On the 13<sup>th</sup> December 2021 Full Council approved the tax base for 2022-23 at 24,447. Should Torridge raise its Council tax in line with its referendum levels - £5 increase for a Band D (£178.66) Torridge's Council Tax income for 2022/23 would be £4.4m
- 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.

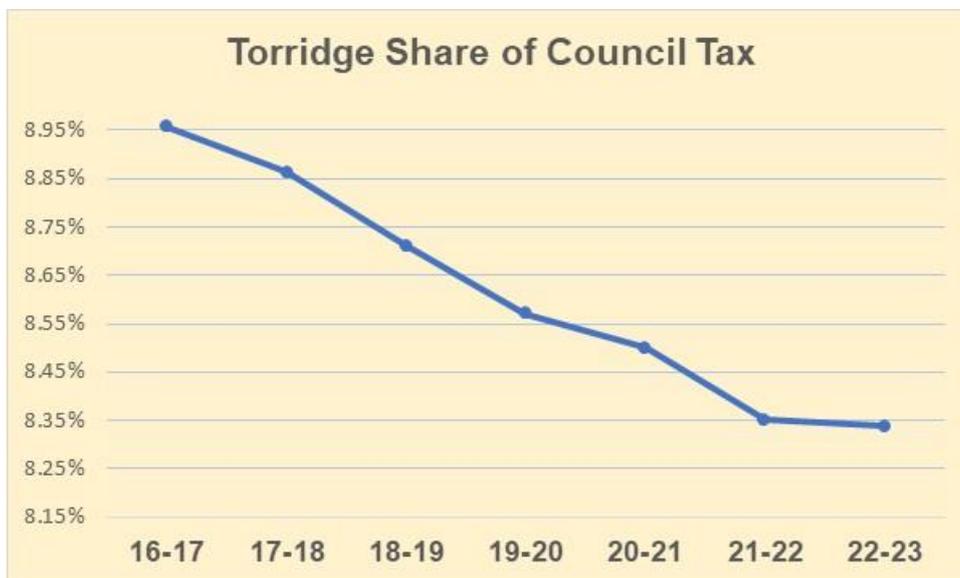
The table below shows the number of properties liable for Council Tax by band, the Torridge element of the Council Tax levied and how much a £5 increase on a Band D Equivalent would be by Band for 2022-23.

Council Tax Band	Number of Properties	Torrige 21-22 charge	Impact of £5 increase	Weekly increase in pence
A	8,186	115.77	£3.33	6.41
B	7,271	135.07	£3.89	7.48
C	7,039	135.07	£4.44	8.55
D	5,764	173.66	£5.00	9.62
E	3,346	212.25	£6.11	11.75
F	1,113	250.84	£7.22	13.89
G	369	289.43	£8.33	16.03
H	30	347.32	£10.00	19.23
	<b>33,118</b>			

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

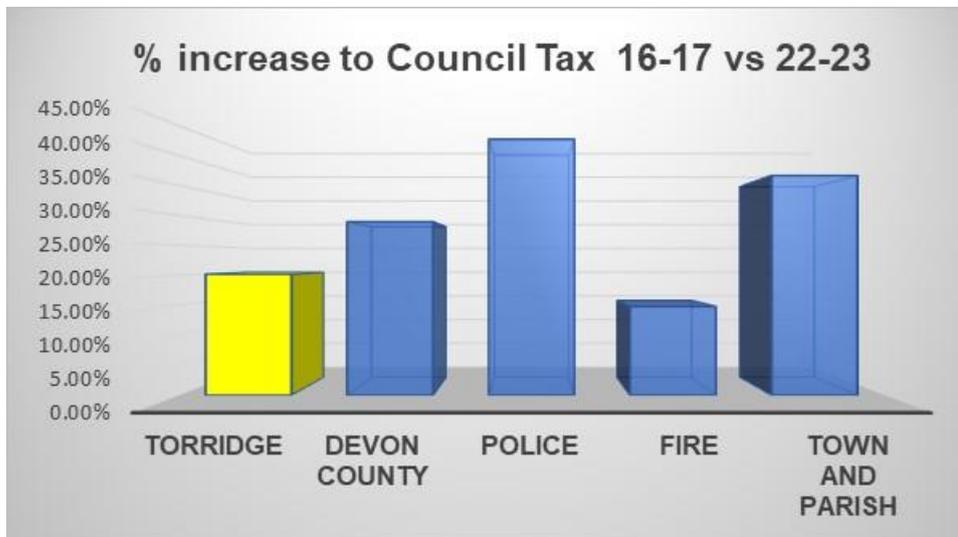
The Council Tax levied by Torrige is only one component of the Council Tax bill levied on its residents. Over recent years the proportion of Council Tax levied by Torrige Council has been in decline. This is due to a combination of factors such as Devon County Council being able to raise a social care precept, above inflation rate increases for Devon and Cornwall Police Commissioner. and the absence of referendum limits for Town and Parish Councils.

The table below shows the percentage of the council tax retained by Torrige Council. The 2022/23 figure assumes increases by preceptors to their maximum (and Parish and Town Council precept increase of 2%). As the chart below shows Torrige's share of Council Tax is likely to be below 8.35% for the financial year 2022-23.

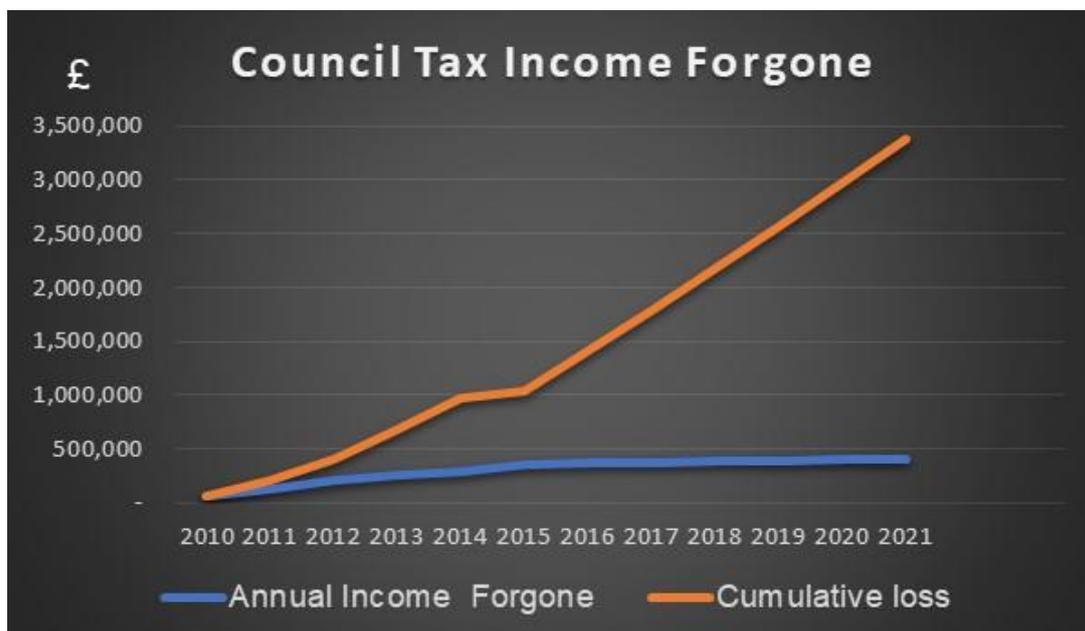


The chart overleaf shows the increases to Council since 2016-17 to 2022/23 for Torrige and its preceptors.

As a result of referendum restrictions for shire districts such as Torrige, its percentage increase has fallen behind that enjoyed by Devon County, Devon & Cornwall Police and the Town and Parish Councils. Torrige and the Fire Authority have had the lowest increases in their council tax for several years.



- 5.5 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 allow for previous years below referendum level increases to be “made good”.
- 5.6 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.



The chart above models the impact of members deciding NOT to increase Council Tax in prior years. It shows that cumulatively the Council has forgone circa £3.5m in income and is forgoing circa £400k per annum as at 2021/22.

To put this into context, the entire Council’s vehicles replacement program amounts to circa £4.7m, and the current pressure pertaining to leisure (by year 3) is circa £400k above current budgetary provision.

## 6. Business Rates Retention

6.1 Central Government has concluded its review of business rates and announced the following:

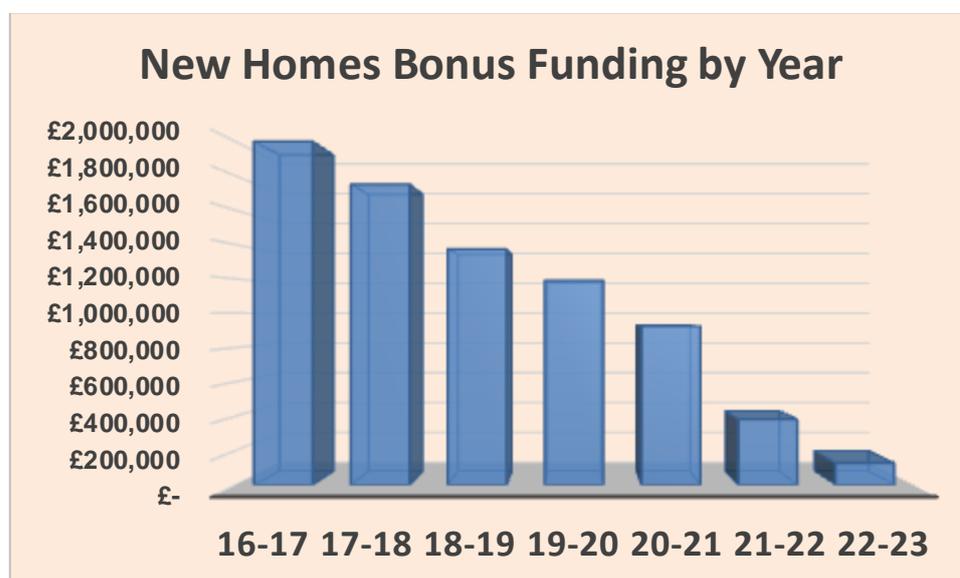
- The Business Rate Multiplier has been frozen for 2022-23, Torridge will receive Section 31 grant funding as compensation for the reduced business rates collected
- For 2022/23 there will be a temporary relief for eligible retail, hospitality, and leisure. Eligible properties will receive 50% relief up to a £110,000 business cap. Torridge will receive Section 31 grant funding as compensation for the reduced business rates collected.
- 100% relief for 12 months from higher bills where improvements have been made to an existing property which have resulted in increased business rates. To come into effect from 2023.
- Target business rate relief for the period April 1 2023 to 31 March 2025 for eligible plant and machinery used in onsite renewable energy generation.
- Going forward business rate revaluations will take place every three years, previously this was every 5 years. The next business rate revaluation comes into effect from 1<sup>st</sup> April 2023, as the revaluation has been delayed there will continue to be transitional protection relief for affected businesses.

## 7. 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 in 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%. For Torridge this equated to circa 100 Band D equivalent properties.

The Government has signalled the end of the current NHB scheme but has not yet provided any detail as to how any replacement scheme would operate. With the projected demise of the NHB scheme any grant funding arising from increased properties number in 2019/20 and 2020/21, 2021,23 were only payable for one year (2020/21, 2021/22 and 2022/23 respectively). The Chart below illustrates the impact for Torridge of declines in NHB funding.



Previously 50% of New Homes Bonus funding has been earmarked to support the Council's capital program. The reductions in NHB funding, clearly have a dramatic impact on the funding of the Council's capital program.

## 8. Budget 2022-23

8.1 Full Council on the 21st February 2021 agreed a net revenue budget of £6.96m for 2021/22; the Medium Term Financial Strategy (MTFS) highlighted to members a deficit for 2021/22 of £105k with a surplus of £91k forecast by 2025-26.

The budget setting process for 2022/23 has identified various pressures and savings, and incorporates various assumptions, which are detailed below:

### 8.2 Assumptions

- **Council Tax Income**

In year Council Tax collection rates for 2020-21 are projected to be 97.1% against a target collection rate of 97.45%. Taking into account the collection of prior year council tax debts a collection rate of 98% was used when setting the Council Tax base for 2022-23.

The MTFS projections detailed later assumes Council Tax will rise up to the referendum levels for each financial year (e.g. £5 per band D equivalent).

- **Business Rates**

The MTFS only assumes modest growth in the business rate base of the Council over financial years 2022/23 and 2023/24, with increases pertaining to renewable energy schemes anticipated from 2024/25.

- **Income from Short Term Treasury Deposits**

At the onset of the Covid-19 pandemic the Bank of England cut interest rates to 0.1%, this has resulted in a very substantial decline in interest income the Council earned on its short term treasury management deposits.

Income from short term treasury deposits and interest on its current account is detailed below:

2019/20	£147k
2020/21	£31k
2021/22	£20k
2022/23	£35k

There is some indication interest rates will rise over the medium term consequently income from short term treasury deposits are anticipated to increase over the life of the MTFS; with income returning to 2019/20 levels by 2025/26.

- **Income from Fees and charges**

In 2020/21 the Covid-19 pandemic severely hit local authorities' income from fees and charges; within Torridge the biggest area of income decline was Car Parking in particular the months of April – June 2020 when the country went into a national lockdown. There was minimal loss of income from the Council's other fees and charges.

Central Government introduced a scheme whereby Councils were compensated for up to 75% for their lost fees and charges income arising from the Covid-19 pandemic. The compensation scheme was extended for the first quarter of 2021/22, income from fees and charges held up during 2021/22 and no compensation payment accrued to Torridge for 2021/22.

Predicting future income levels from Fees and Charges is difficult; planning fee income for 2020/21 and 2021/22 has been 100% above budget, an increase to the planning income target of £250k has been incorporated into the MTFS. The income budget from the Burrows has also been uplifted over the life of the MTFS reflecting increased charges and visitor numbers.

Other income from Fees and Charges has been assumed to remain substantially unchanged over the life of the MTFS.

- **Pay awards.**

With inflationary pressures within the economy there has been, and undoubtedly will be pressures on local government from the unions for enhanced pay awards. Torridge is part of the collective agreement within the Local Government Association and does not set its own pay awards. Future pay awards within the MTFS are assumed to be 2% per annum.

- The Council has traditionally set a vacancy savings target which it has exceeded. Due to on-going difficulties in recruitment a vacancy saving target of £400k has been set for the duration of the MTFS. By way of context the Council pay related budgets are circa £9.3m a vacancy target saving of £400k equates to 4.3% of the budgeted payroll.
- **Leisure**

On the 6<sup>th</sup> August 2021 members made the decision that leisure services would from the 1<sup>st</sup> April 2022 be delivered by way of an Local Authority Trading Company (Active Torridge). Members were aware that costs of providing leisure services would be more expensive in a post Covid world. At the time of writing this report the projected additional costs of providing leisure services (over and above existing budgetary provision of £279k) are:

○ 2022/23	£536k	total cost	£ 815k
○ 2023/24	£424k	total cost	£ 703k
○ 2024/25	£276k	total cost	£ 505k
○ 2025/26	£171k	total costs	£ 450k

Leisure represents by far the biggest pressure on the Council Revenue budgets over the MTFS.

- **Previous year surpluses.**

Members may be aware that the Council reported a significant surplus for 2020/21 and is forecasting a significant surplus for 2021/22. In 2020/21 the Council was able to set aside a total of £1.68m to reserves from surpluses generated. The monies being set aside to:

- Capital Funding Shortfall £642k
- Leisure Reserve £771k
- Other Reserves £262k

The projected surplus for the financial year 2021/22 as at Quarter 2 was £853k, it is likely the surplus for 2021/22 will increase further as Central Government have provided additional Covid-19 related grants by way of compensation for additional duties undertaken pertaining to the distribution of Business Support grants and Track and Trace payments. These additional works have largely been absorbed within existing resources.

The two biggest contributory factors with regards to the surpluses generated in 2020/21 and 2021/22 (projected) have been.

- Receipt of Central Government Covid grants in excess of additional spend
- Exceptional levels of Planning Income.

For the budgets 2022/23 onwards no Covid-19 grant funding is anticipated from Central Government.

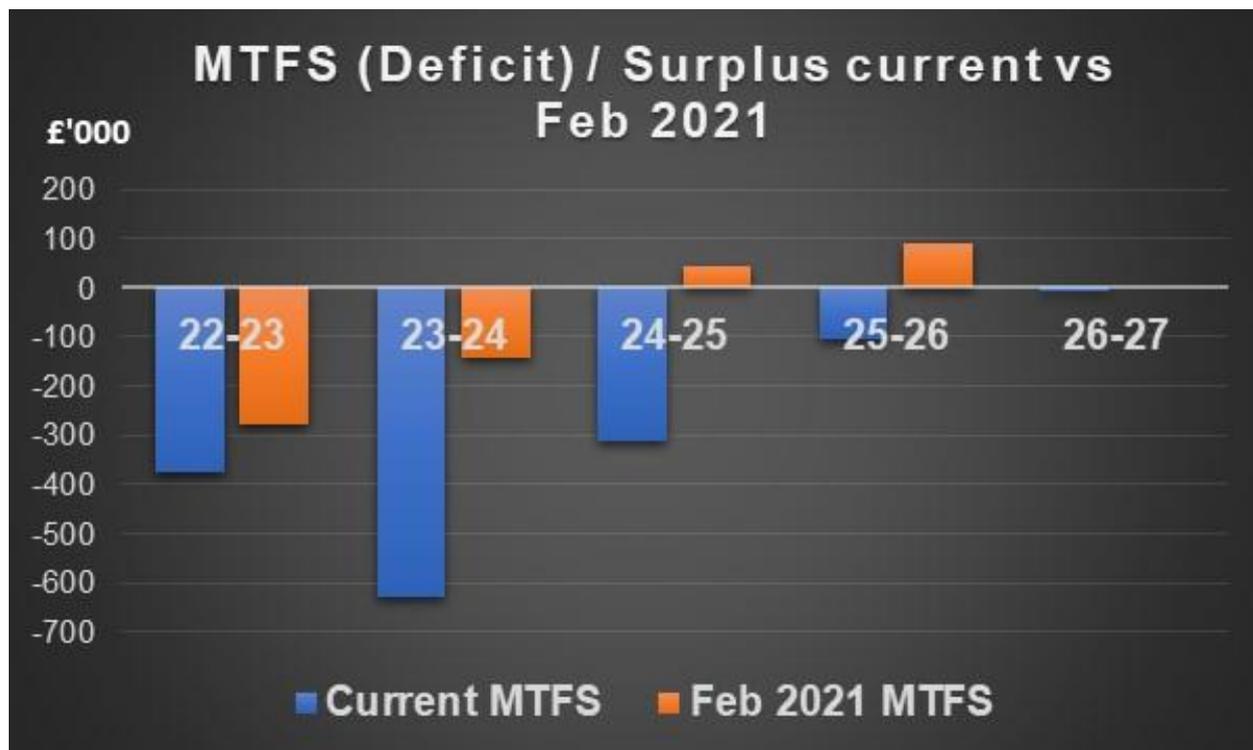
With regards to planning income as stated previously an uplift in planning income of £250k is forecast with the MTFS.

### 8.3 Pressures and Potential Savings

The table below summarises the major movements on funding and expenditure identified since the Council's MTFS was last reported to members in February 2021.

	2022-23	2023-24	2024-25	2025-26
	Surplus / (deficit) - £'000	Surplus / (deficit) - £'000	Surplus / (deficit) - £'000	Surplus / (deficit) - £'000
Feb 2021	(278)	(144)	42	91
Current Projection	(374)	(629)	(310)	(105)
Movement	(96)	(485)	(352)	(196)
<b>(adverse) / favourable movement</b>				
Revenue support for Leisure	(536)	(424)	(276)	(171)
Increased contributions to Vehicle Replacement reserve	(100)	(133)	(167)	(203)
Staffing pressures (employer's NI & Pension contributions)	(343)	(492)	(562)	(638)
Residual Waste Tipping off charges	(75)	(75)	(75)	(75)
Business Rate Income	124	122	90	246
Movement on Central government Grant Funding	(32)	(41)	(50)	(59)
Revised assumptions regarding New Homes Bonus funding	131	131	131	131
Increased Business Rate income from renewables	4	9	134	143
Delayed delivery of new Environmental Centre	170			
Increased Planning Income	250	250	250	250
Increased Income Northam Burrows	120	120	120	120
Council Tax Surplus realised from 2021/22	133			
Council Tax Income	(8)	(9)	(9)	(9)
Increased vacancy target	100	100	100	100
Remove contribution to contingency reserve	70	70	70	70
Other pressures and savings	(103)	(113)	(109)	(100)
<b>Subtotal</b>	<b>(95)</b>	<b>(484)</b>	<b>(354)</b>	<b>(195)</b>

The projected funding shortfalls over the life of the MTFS are shown below compared with the reported deficits as at February 2021. The MTFS reported to members in February 2021 projected modest surpluses for 24-25 & 25-26. The Council's revenue budgets are not projected to return to balance until 2026/27 assuming leisure can be provided within an affordable cost envelope.



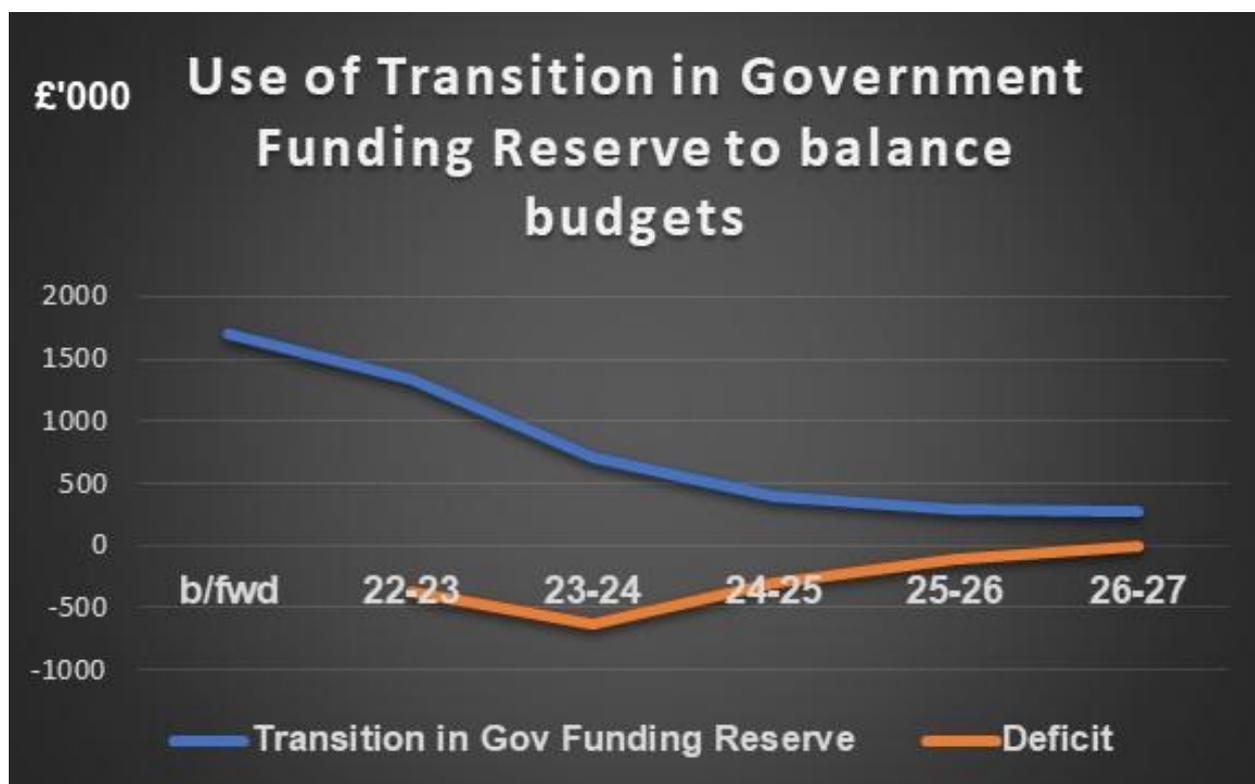
The key financial pressures highlighted in the previous table are:

- Support for Leisure
- Staffing related costs
  - Increased pay award
  - Increased Employer's National Insurance
  - Increased Employer's Pension contributions
- Increase contributions to the Vehicle Replacement Reserve
- Adverse movement on Central Government Grant Income

As the chart below shows the Council finances remain in deficit throughout the MTFS.

The Council holds a Transition in Government Funding reserve to be used to balance the revenue budgets until such time as savings or additional revenue streams are identified. The projected balance on the Transition in Government funding reserve at the 31<sup>st</sup> March 2022 is £1.42m.

As the chart below demonstrates the projected revenue deficits over the life of the MTFs show the Transition in Government Funding reserve will be significantly diminished by 25-26.



## 10 Funding 2023/24 onwards

10.1 Current funding allocations to Councils from Central Government are largely based upon an assessment of their needs and available resources using data from 2013-14. The Government has re-confirmed its commitment to update their assessment of local authorities' need and resources (previously referred to as the Fair Funding Review) based on the latest available data.

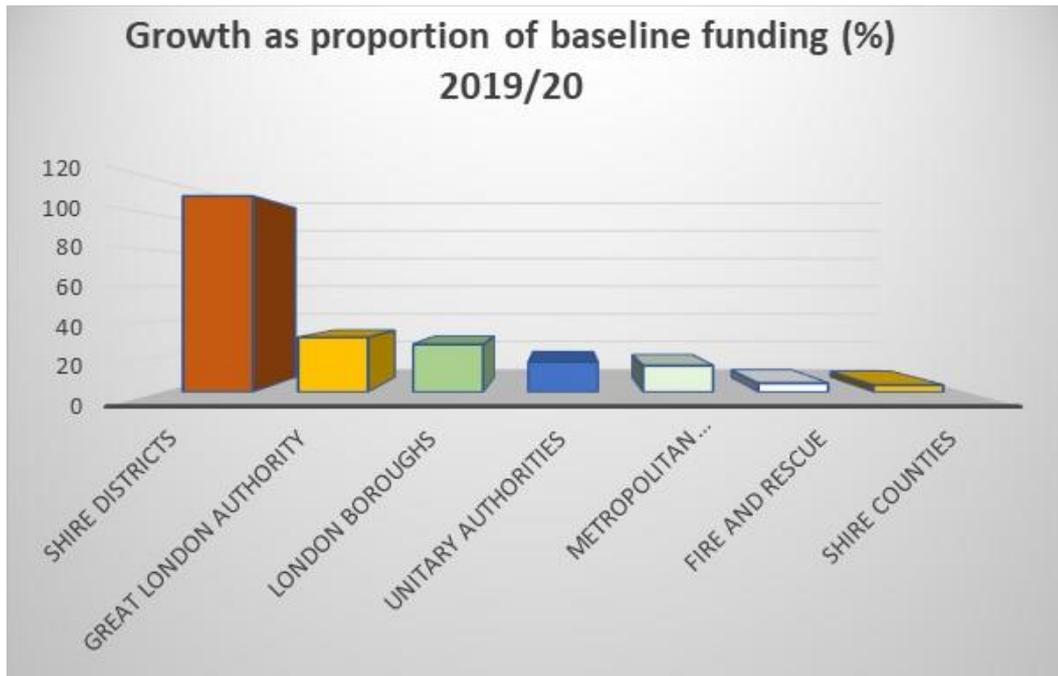
The Government has indicated there will be transitional protection in place for authorities adversely impacted by the updated needs assessment. However they have indicated that new services grant (£164k to Torrington in 2022/23) will be excluded from any transitional protection.

At this juncture it is not possible to determine if Torrington will be a winner or loser when this reassessment of need and resources is undertaken; however it would be prudent to consider that recent focus with regards to issues within the adult social sector may lead to a redirection of resources to local authorities with social care responsibilities.

Since the introduction of business rate retention in 2013 shire districts such as Torrington 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



It would be prudent to conclude that any reassessment of need and resources would result in a redirection of funding from shire districts to shire counties.

## 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 projected make-up of the Council's reserves as at 31<sup>st</sup> March 2022 is as below:

	£'000
Capital Reserves	7,716
Transition in Government Funding Reserve	1,704
Other Earmarked Reserves	3,104
<b>Total</b>	<b>12,524</b>

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 2022/23.

<b>Planned Contributions to (from) reserve</b>					
	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>
<b>Planned Reserve Transfers</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Vehicle Replacement	654	687	721	757	795
ICT Replacement	80	80	80	80	80
General Contribution to Capital	180	180	180	180	180
Property Maintenance Backlog	75	75	75	75	75
Funding prior year Collection Fund Deficit	(2,277)	(159)	0	0	0
Staff (Apprentices) funded from reserve	(120)	(120)	(120)	(120)	(120)
Other Contributions to Reserves	54	54	53	53	53
<b>Total</b>	<b>(1,354)</b>	<b>797</b>	<b>989</b>	<b>1,025</b>	<b>1,063</b>

\*\*\*\* For technical reasons there will be a deficit on the NNDR collection fund for 2021/22 as a result of various Central Government reliefs for business rates. Torridge as the billing authority collects business rates and pays over business rates to its preceptors; (Central Government, Devon County and Devon & Somerset Fire Authority) based upon budgeted business rates income. The payments to preceptors are not adjusted in year if actual business rate income collected is less (e.g. as a result of additional reliefs award).

Any deficits on the collection fund are only realised in the following year. Torridge has received S31 grants from Central Government in 2021/22 by way of compensation for reduced business rate income. These Section 31 grant monies will be put to reserve in 2021/22 and released in 2022/23 to meet the aforementioned collection fund deficit.

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.

	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cost of Service	9,707	9,709	9,964	10,236	10,571
Movement (from) to Reserve	(1,354)	727	850	816	784
Other - Financing etc	(370)	(3)	(45)	(97)	(97)
subtotal	7,983	10,433	10,769	10,955	11,258
<b>Funding</b>					
Central Government Grants	(1,181)	(1,040)	(1,042)	(1,044)	(1,047)
Council Tax	(4,490)	(4,553)	(4,766)	(4,947)	(4,947)
Business Rates	(1,939)	(4,211)	(4,651)	(4,857)	(5,073)
<b>Subtotal Funding</b>	<b>(7,610)</b>	<b>(9,804)</b>	<b>(10,459)</b>	<b>(10,848)</b>	<b>(11,067)</b>
<b>Use of Reserves to balance</b>	<b>(373)</b>	<b>(629)</b>	<b>(310)</b>	<b>(105)</b>	<b>(7)</b>
<b>Use of Reserve to balance over MTFS</b>					<b>(1,424)</b>

## 12 Looking forward

- 12.1 Clearly the Council cannot continue to spend beyond it means, the Council's scope for increasing income is largely limited to its Fees and Charges; with Council Tax income constrained by referendum limits.

Whilst the Council in its role of billing authority collects business rates, it does not set the business rate tariff, these are set nationally. Consequently it has limited influence over business rate income, this being primarily manifested by planning policy such as the approval of renewable energy projects.

There is no indication that Torridge can expect to see enhanced funding from Central Government; indeed over the last three years, Torridge has (after taking into account inflation) seen a real term decline in its Central Government Grant funding.

Members have a variety of options available to them for bridging the gap.

- Increased Fees and Charges
- Stopping / reducing discretionary services
- Reducing levels of service for mandatory services

As stated previously the biggest area of pressures on the Council revenue budgets over the MTF5 is the on-going support for leisure and staff related pressures. Members at Full Council on the 13<sup>th</sup> December 2021 recommended that:

- The cost model for provision of leisure services be reviewed and reported back to Full Council in June 2022.
- That Active Torridge reported back by September 2022 to provide options as to how leisure services can be provided at:
  - Current budget - £279k
  - Current budget plus 25% - £350k
  - Current budget plus 50% - £420k
  - Current budget plus 75% - £490k

However even if the various assumptions within the MTF5 re future cost pressures, income etc be valid; the Council's budgets do not come back into balance until 2026-27 at the earliest and are vulnerable to any deviation from the assumptions outlined in section 8. levels.

### 13. ROBUSTNESS OF THE BUDGET

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**

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 2022/23 to 2026/27 within this report.

The following represent the areas of greatest uncertainty over the period of the MTFS

- Costs associated with providing leisure services
- Central Government review of local authorities needs and resources
- Future planning income
- Inflationary pressures, construction price inflation, utilities and staff pay awards

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.

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 2022/23 and the use of financial reserves.

### 14. Risk Assessment

The major risks associated with the achievement of both the Budget 2022/23 and the MTFS is that the major assumptions and forecasts highlighted in section 8.2 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 – 18th January 2022

“Whilst it is always difficult to recommend and justify a decision to increase the Council Tax in any year, it is my opinion a necessity given the financial challenges faced by the Council. 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.

The provisional settlement has been particularly disappointing, following on from several below inflation settlements over the previous few years .

Clearly the Council faces an uncertain financial future and options will have to be developed to bring the budgets back into the black over the period of the MTFS”.

### **Conclusion**

The report highlights the challenges faced by Torridge Council in an increasingly uncertain environment, in particular the pressing need to provide leisure services within an affordable envelope. The future funding for the Council’s capital program is an additional area of concern.

### **15. Recommendations:**

#### **Recommend to Full Council**

That Members recommend to Full Council

- a) Torridge’s Band D Council Tax for 2022/23 be increased by £5 (2.90%) from £173.66 to £178.66 per year
- b) Torridge’s Net Revenue Budget 2022/23 is £7.983m
- c) The contributions to the Council’s reserves as outlined in paragraph 11.4 are approved.

That members note:

The Chief Finance Officer (s151 Officer) assurance of the robustness of the budget 2022//23 set out in section 13 of the report.

Note the assumptions and forecast applied to develop the MTFS outlined in section 8

Note the risks associated with the Budget 2022/23 and MTFS outlined in section 12

### **SUPPORTING INFORMATION**

Consultations:                   Date of Consultation – 18 January 2022

  Leader - Councillor Ken James  
  Deputy Leader – Councillor Claire Hodson

  Officers Consulted –  
  Steve Hearse   Chief Executive  
  Sean Kearney   Head of Communities and Place  
  Staci Dorey     Head of Legal & Governance

Contact Officer:                 David Heyes – Section 151 Officer

Background Papers:

