Medium Term Resource Plan

This plan from November 2012 is a rolling plan that will be updated on an ongoing basis when changes are known e.g. legislation, funding notification and estimates of income and expenditure.

"The Plan" will be available on the Council website.

For further information please email financial.services@torbay.gov.uk

Plan last updated on 27th January 2015

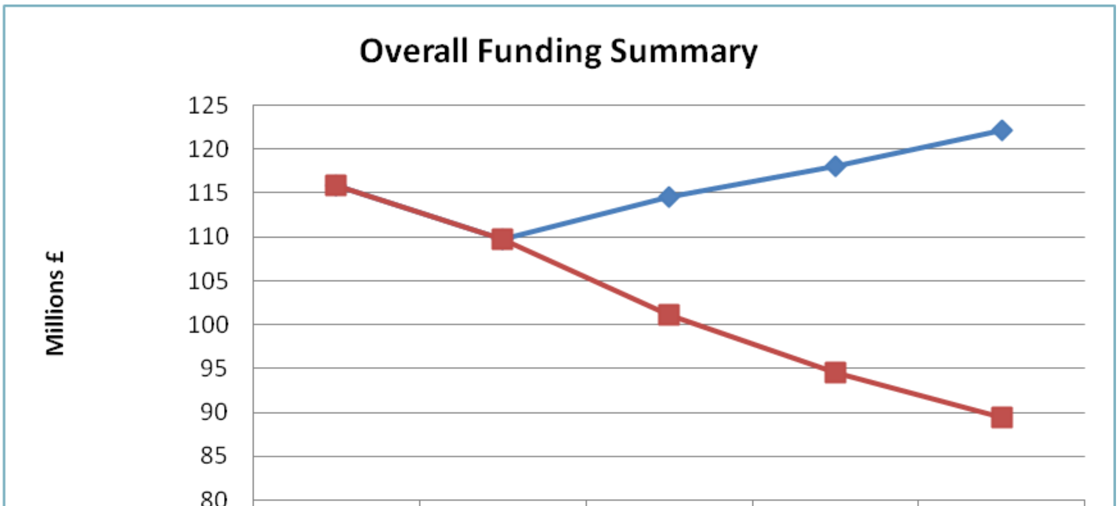
CONTENTS

1 **KEY SUMMARIES**

Overall Funding Summary

Having taken into account the income and expenditure estimates based on the assumptions detailed in this Plan, the table below summarises the estimated income and expenditure pressures faced by the Council and the estimated funding gap for the period of the Plan.

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Estimated Income (RSG, Business Rate Retention, Council Tax& Collection Fund)	115,756	109,781	101,112	94,518	89,419
Expenditure b/f		115,756	109,781	114,514	117,961
Cost Pressures	-	2,035	2,392	1,720	1,732
Demand Pressures	-	2,778	2,500	2,500	2,500
Discretionary Decisions	-	737	895	45	90
Other (e.g. service funding changes, TM)	-	1,450	(1,054)	(818)	(68)
Less proposed savings	-	(12,975)	0	0	0
Expenditure c/f	**115,756**	**109,781**	**114,514**	**117,961**	**122,215**
Estimated In- year Funding Gap	0	0	13,402	10,041	9,353
Total Estimated Cumulative Funding Gap	**0**	**0**	**13,402**	**23,443**	**32,796**



	2014/15 £ m	2015/16 £ m	2016/17 £ m	2017/18 £ m	2018/19 £ m
Expenditure	115.8	109.8	114.5	118	122.2
Income	115.8	109.8	101.1	94.5	89.4

Tables last updated 27th January 2015

Summary Income Position

The table below summaries all the income information identified in section 5 of this Plan.

	2014/15 Budget £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Revenue Support , ESG and LSSG Grants	36,339	26,212	16,755	8,226	1,124
Business Rate Retention & Top Up	27,773	29,132	29,760	30,462	31,204
Council Tax	52,608	53,437	53,597	54,830	56,091
Collection Fund Surplus/(Deficit)	(964)	1,000	1,000	1,000	1,000
Total	**115,756**	**109,781**	**101,112**	**94,518**	**89,419**

Table last updated 27th January 2015

Note: These figures are estimates at a point in time and will be inevitably subject to change and be updated as appropriate.

2 TIMETABLE

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

Revenue Budget Setting Process		Timeline
2015/16 Budget Development	Mayor & Executive Director	Summer 2013 – December 2014
2015/16 Budget Reductions Consultation	Executive Director	Summer 2014
2015/16 Finance Background Reports available	Overview & Scrutiny Board	Autumn 2014
2015/16 Mayor's Budget Proposals	Council	December 2014
2015/16 Budget Approved	Council	February 2015
2015/16 Council Tax Set	Council	February 2015
2015/16 Budget Digest published with MTRP update	Chief Finance Officer	March 2015
2014/15 Outturn Reports	Council	July 2015
2016/17 Budget Development	Mayor & Executive Director	Spring 2015 – December 2015

The Medium Term Resource Plan is a standing document and will be updated when new information or estimates are available.

3 KEY INDICATORS & ASSUMPTIONS

A selection of key indicators and assumptions are presented in the table below.

	2013/14 Actual	2014/15 Target	2015/16 Target	2016/17 Target
Assumptions:				
Council Tax Rise	-	0%	0%	0%
Reduction in Income	-	-	£6m	£9m
Council Tax in Year Collection Rate	96.1%	96.5%	96.0%	96.0%
Savings Required	-	£12.1m	£13.0m	£13.4m
New Homes Growth	-	0.4%	0.4%	0.4%
Key Indicators:-				
Performance against Budget (% variance under)	(0.3)%	0%	0%	0%
Long Term Borrowing against Long Term Assets	51%	50%	50%	50%
General Fund Reserve against budget	3.5%	3.8%	4%	4%
Schools reserves against DSG	7%	5%	5%	5%
Earmarked Reserves against net budget	27%	20%	20%	20%
Liquidity – current assets against current liabilities	3.1:1	2.5:1	1.5:1	1.5:1

Table last updated 28th January 2015

To arrive at the estimates contained within this plan the Chief Finance Officer, where appropriate, has considered alternative scenarios and the sensitivity of the estimates used.

4 OVERVIEW

The Medium Term Resource Plan (MTRP) is a key financial planning document and supports the Council in ensuring it can plan effectively for the use of resources in the medium term. This Plan sets out the resource projections for the next four years, the financial challenges and will help the Council deliver the priorities as set out in the Corporate Plan.

The budget challenges for future years where the Council's Revenue Support Grant is expected to be cut at a similar level to recent years cannot be understated. These are significant budget reductions and with approx. 60% of Council net budget allocated to social care the challenge to get a robust budget that provides the statutory services the Council must provide is immense. It should be noted that no indicative funding figures have been provided for 2016/17 and allocations could be confirmed as late as December 2015 for 2016/17 which makes planning more challenging.

Local government has always been subject to a number of significant challenges as a result of changes to national policies and increasing demands. However with the government's commitment to reduce the public sector deficit and the continuing period of austerity the country is facing, local government has never faced a more uncertain future primarily driven by the ongoing reduction to the funding provided to support local services. 2014/15 was the fourth year of the current Comprehensive Spending Review where central government funding to local government was expected to have fallen by 28% over these years. Over the past four years the Council has made budget reductions of over £40 million with over £13m planned for in 2016/17.

Over the past four years the Council has used the Council Tax Freeze Grant to keep tax increases to nil. (Any Council tax rises of 2% or over would be subject to a local referendum).

Central Government published the provisional 2015-16 Local Government Finance Settlement in December 2014. This stated that Torbay Council's 2015/16 assumed "baseline" funding would be £55.0m in Revenue Support Grant (RSG) and Business Rate Retention compared to £64.3m in 2014/15, a year on year reduction of £9.3m. (£9.9m before transfer of 2014/15 Council Tax Freeze grant to RSG).

No figures have yet been announced for 2016/17 however it is expected that the rate of annual reductions in local government funding will continue until 2020.

The Government's figures are based on their assumed NNDR baseline for Torbay. The actual NNDR income for Torbay will depend on actual changes in NNDR income – up or down – from that baseline. Current indications are that the Council's NNDR income is now stabilising after a period of reduced income.

The Government has announced the continuation of a number of changes to the NNDR system to encourage growth. These changes will reduce NNDR income however central government had confirmed it will make good any losses in Council income as a "new burden".

The above are cash reductions in funding therefore any spending pressures the Council has, for example, from increased demand for social care, inflationary pressures or a reduction in other grants or income will be an additional pressure to be funded from budget reductions. If these pressures are recognised the Council is facing a shortfall in 2016/17 of over £13 million.

There is a continuing financial impact of service pressures within Children's Services due to increasing numbers and complexity of cases. In addition to the £2m extra funds provided in 2013/14 for safeguarding and a second tranche of £2m and a £1.5m use of reserves in 2014/15, this service is expected to have service pressures of a further £2.7m in 2014/15 (Q3 14/15). An overspend of this level is unsustainable and the Council will have to make budget reductions to other services, above and beyond those required by reductions on central government funding to continue to provide this level of service. To mitigate the service pressure a budget recovery plan for Children's services was approved in October 2014 which approved the use of £3.5m of earmarked reserves to support children's services in 2015/16 and 2016/17 before the service starts to underspend in 2017/18 when, it is projected, the plan predicts that service will be in a position to start to repay the reserves used. This use of earmarked reserves to support short term service pressures with expectations of future year repayment to restate the earmarked reserve is a risk.

In addition the central government is proposing for 2015/16 to change the allocation of existing funding in a number of areas by removing (or pooling) existing revenue and capital grants from the Council and distributing them to a regional body or pooled working, such as:

- transferring the Integrated Transport capital grant to support the Local Enterprise Partnership and

- transferring the Disabled Facilities grants, social care capital grants and s256 social care funding from the NHS to be combined in the proposed Health and Social Care Better Care Fund.

In all these cases these are funding sources that the Council currently uses so any reductions in these will have to be funded from additional reductions to expenditure unless the new body agrees to fund existing pressures.

The Council will continue to plan for other changes in funding resulting from the impact of central government's changes to services. These include:-

- the loss of funding from the continuing conversion of Council schools to Academies

- the ongoing impact of welfare changes in particular the replacement of a number of benefits, such as housing benefit that the Council manages, with the (proposed) Universal Credit.

The Plan will provide the context for future financial planning and the Council will need to consider how to address the implications of reduced funding over 2016/17 and future years and develop a deficit reduction plan after that period in conjunction with development of the Council's Corporate Plan and priorities.

The Plan highlights the financial challenges faced by the Council and the fact this Plan estimates the Council will have to close an estimated budget gap of **£33m,** (<u>in addition</u> to the £13m savings for 2015/16), over three years between 2016/17 and 2018/19 based upon existing service demands and "normal" budget pressures including inflation and demographics for the Bay. The expectation is ongoing budget reductions are likely to continue for the rest of this decade at a similar rate as 2015/16. These reductions have to be set in context of the Council having to absorb the impact of rising costs, in particular to meet the care needs of an increasingly elderly and frail population as well as additional pressures within Children's Social Care which are outlined later within this Plan.

As articulated through the Corporate Plan, despite these difficult times, the Council's strategy will be to continue to deliver value for money services and quality services and an affordable council tax level for local residents. During the summer of 2014 the Council embarked upon a consultation exercise with residents and stakeholders on the scale and type of reductions to services to address the budget gap in 2015/16. In December 2014 the Mayor presented his proposed revenue budget for 2015/16, together with spending targets for Council services in order to achieve the required budget reduction.

It is clear that the Council continues to face its most challenging period since it became a unitary authority in 1998 and it will continue to develop a strategy which addresses the funding shortfall in future years and take measures that will try to minimise the impact of the spending cuts to a deprived area such as Torbay. Due to the expected scale of reductions faced by the Council it will not be possible to achieve these savings by further efficiencies and it is inevitable that some services will face reductions or will be subject to significant changes.

The Council must continue to explore new ways of delivering Council services, including the support of the local community, with an emphasis of maintaining service levels whilst maximising value for money and reducing its cost base through generating further efficiencies. However, in a number of services it is increasingly difficult to generate further efficiencies without reducing service levels, and the Council must continue to plan for a reduction in services provided to customers over the medium term.

5 INCOME

Central Government Grant

The CSR announcement in October 2010 suggested that, over the 4 year period, the level of grant from the Government would fall by some 28% in real terms. The 2015/16 baseline is a headline reduction of 13% for 2015/16 in the overall local government spending limit which includes the NNDR retention scheme. For Torbay in 2015/16 this equated to a £10m or 28% reduction in Revenue Support Grant.

Total spending in 2016/17 and future years is expected to fall in real terms at the same rate as during the Spending Review 2010. The Council forecasts of future year grant have assumed the same rate of reductions as 2015/16.

It is worth noting that the Councils assessment of need for grant was "frozen" at a baseline for 2013 and is expected to be until 2020. This means that there will be no additional funding if the Councils "need" for funding increases; e.g the demand for social care. The Council's funding will be based on simple percentage reductions linked to the baseline. Unfortunately the baseline also froze the £4m that the Council "lost" annually in the damping of grant within the old funding assessment.

With this frozen baseline and the business rate retention scheme there is a clear shift that Council funding is now significantly based on its economic growth (NNDR and homes) and not needs based. So in simple terms no growth, no increase in funding.

The table below provides an estimated position on future funding levels over the next four years. It must be emphasised that due to the uncertainty with respect to government grant reductions in 2016/17 onwards, and the impact of the Business Rate Retention Scheme where income can fluctuate, this is an estimated position at a point in time.

	2014/15 £'000	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
Business Rates – 49% share	17,173	17,833	18,190	18,553	18,925
Distribution from the Devon Business Rate Retention Pool	0	497	552	670	816
Top Up payment	10,600	10,802	11,018	11,239	11,463
Revenue Support Grant	35,327	25,439	16,532	8,203	1,101
LSSG Grant	112	23	23	23	23
ES Grant (estimate - funding to be announced)	900	750	200	0	0
Total "General" Income	**64,112**	**55,344**	**46,515**	**38,688**	**32,328**
% reduction		**14%**	**16%**	**17%**	**16%**

Table last updated 27th January 2015

For the purposes of this Plan it has been assumed Torbay will have a £25m reduction in its core grants from central government over the next three years. This estimate is based on a combination of factors including:

- The fall in the overall resources available to local government;
- impact of the transfer of specific grants to revenue support grant;
- impact of the transfer of resources from local authorities to fund academy schools;
- impact of technical changes such as RPI assumptions and "hold backs" to grant allocations.

In 2013/14 Public Health transferred to local authorities, this is a commissioned service with a series of contracts with a number of providers. The service is funded by a grant in excess of £7m. This grant is ring-fenced until at least 2015/16 and it is assumed that this will continue in future years, so for the purposes of the Plan have not been included within the overall figures.

The Council will continue to explore all other opportunities for further grant funding building upon opportunities such as Social Investment Bonds, Local Enterprise Partnership and other opportunities as they arise. Whilst these areas may provide access to further sources of income they are unlikely to mitigate the decrease in grant in future years and the impact this will have upon all services, particularly discretionary services.

Government Grants (Direct and Indirect)

The Council does receive specific grants such as Dedicated Schools Grant (DSG), where the majority goes directly to schools, Public Health Grant and the Housing Benefit Administration Grant (which is treated as part of the revenue account), and a number of other smaller grants. The DSG will reduce as more schools convert to academies, the housing benefit grant will reduce with the introduction of universal credit and the Public Health Grant is currently ring fenced.

With the introduction of the Council tax Support Scheme in 2013/14, the Council received a grant of £12m equal to 90% of the costs of the old Council Tax Benefit Scheme. This grant has now been transferred to the revenue support grant and is subject to annual reductions. However in a technical consultation document DCLG state that the value of this grant has been protected at a national level but is part of the Revenue Support grant that is subject to a percentage grant reductions, which in one year alone, 2015/16 is 30%.

The government assessed in 2012/13 the Council's spend on supporting schools as £2.6m. As schools convert to academies, Council funding will continue to reduce and the balance on this funding will form part of the Education Services Grant (ESG). The estimated value of this grant in 2015/16 is £0.750 million.

Council Tax Freeze grants have, with the exception of the grant for 2012/13, been "rolled" into Revenue Support Grant (RSG). For the purpose of the plan it is assumed that the Council Tax Freeze grant will be accepted in 2015/16 and in 2016/17, however from 2017/18 increases of 2% per annum have been assumed.

For the purposes of this plan it has been assumed that the section 256 funding from the NHS will form part of the pooled health and social care "Better Care Fund".

Income Assumption – Council Tax

Council Tax income is dependent upon a number of elements in the Council tax base calculations, namely the number and mix of dwellings; changes in discounts and exemptions, impact of Council Tax Support Scheme (CTSS), the level of Council Tax and the assumed level of in-year collection.

For 2015/16 there was an increase in the tax base from changes in number of dwellings, number of CTSS claims and single person discounts and the in-year collection rate was assumed to be 96.0%.

In terms of growth in the tax base, a minimal increase in the base is expected of 0.03% across all years of the plan.

Where Councils have been able to collect outstanding council tax in a following year(s), this income falls into the Collection Fund and is applied as part of the Council's overall income in the financial year following collection. In 2015/16 and future years £1.0m will be applied from the fund to the revenue budget; i.e. the collection fund surplus.

The final determinant for external income is the level of Council Tax. In 2015/16 the Council is proposing to set a rate of £1,261.17 per Band D property which has been held since 2011/12. In exchange for a nil increase the Council gets a grant equal to a 1% rise.

The MTRP makes an assumption that the Council will accept any 2015/16 and 2016/17 Council Tax Freeze Grant therefore the council tax increase will be 0%. Members are advised that if a similar grant of 1% (or £0.6m) is offered by the government in 2015/16 and accepted the grant may be reversed in future years resulting in an additional budget pressure. In addition there is the cumulative financial impact of any council tax increase foregone from accepting the Council Tax Freeze grant, which would have been built into the Council's base budget if a council tax increase had been made. In addition, as part of the RSG, there is the risk that the grant could be withdrawn in the future or subject to reductions as it was in 2014/15.

In addition the, government announces on an annual basis the Council Tax rise referendum threshold. For 2014/15 this was 2% or over and is not expected to change for 2015/16. This means if a local authority wants to raise council tax by 2% or more, local residents would have the right to keep council tax bills down through a binding referendum veto. For planning purposes the MTRP assumes that the Council will accept the Council Tax Freeze grant for 2016/17, and then increase council tax by 1.99% in 2017/18 and future years. This is equal to the Bank of England target rate for inflation. In addition this is equal to Central Governments referendum limit for 2015/16.

For planning purposes the assumed council tax levels and tax base is shown in the table below.

	2014 /15 Actual	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'0000
Council Tax Base	41,713	42,371	42,498	42,623	42,748
Council Tax Level (Band D)	£1,261.17	£1,261.17	£1,261.17	£1,286.39	£1,312.12
Council Tax Income	£52.608m	£53.437m	£53.597m	£54.830m	£56,091m

Table last updated 28th January 2015

Business Rate Income

With the introduction of the (part) localisation of business rates and the new homes bonus grant as a central government funding distribution method to Councils replacing, in part, the previous needs led funding assessment there is a clear incentive to Councils to support both residential and business growth in their areas to access funding. This link needs to be clear in all financial planning.

The Council retains a 49% risk/reward of increases or decreases in business rate income from an assumed "baseline" set as at April 2013. The Council will benefit from any growth in the overall rateable value of all the businesses in the bay both from the annual RPI linked to changes in the multiplier or from growth in the number of businesses. Conversely the Council will have reduced funding from any decline in business numbers, higher level of exemptions given and the impact of any downward revaluations from appeals.

The Council is not only liable for 49% of the cost of any revaluation appeals after April 2013, the start of the scheme, but also 49% of the cost of any appeal that was submitted but not resolved before that date. The value of this liability for back dated appeals will be the result of any appeals awarded by the Valuation office. The Council's latest view is that this appeals liability is around £2.5m. The Treasury has announced that 95% of backdated NNDR appeals should be cleared by the valuation office by July 2015 which will help Councils in estimating the impact of these outstanding appeals.

Current year monitoring shows NNDR income to be stabilising after a period of negative growth in NNDR and a "stable" position has been reflected over the period of the plan.

The Council will remain part of the Devon wide Business Rate pool which has a (cumulative) financial benefit of approximately £0.2m per annum to the Council.

If central government changes any aspect of the NNDR system, by changing reliefs or capping inflationary increases, then the impact of these changes on Council NNDR income will be met by central government providing a "New Burdens" Grant. As Government changes these reliefs etc this will change the split of income between NNDR and grant, which could distort year on year comparisons.

New Homes Bonus

This is an incentive driven (new homes) grant that is expected to rise for 2015/16 to be £2.5m. However as the funding for this distribution is not “new money” but money recycled from reducing Revenue Support Grant paid to Councils, it is a clear risk to the Council that unless its rates of growth and therefore “reward” is greater than the funding being withdrawn the Council will have future budget pressures. The grant reaches a maximum level after six years when it is based on a rolling six year data set of new homes.

Fees and Charges

The Council receives approx. £20m from fees and charges and other sources of income. Some charges are set by legislation (e.g. licensing charges) whereas others the Council have discretion to determine the charge. Fees & Charges are set on an annual basis as part of the budget approval by Council.

No assumptions have been made with respect to fees and charges within the figures included as part of the Medium Term Resource Plan. However, Service Managers will need to consider all options for income generation in the context of the challenging financial period facing the Council whilst taking into account issues of subsidies to encourage usage and the impact of charges upon residents and their ability to pay in these difficult economic times.

6. EXPENDITURE PRESSURES

The 2015/16 budget and proposed £13m budget reductions for 2015/16 approved by Council in February 2014 and October 2014 provides the base position of the financial strategy. To some extent the estimation of expenditure pressures facing the Council are assessable. The starting point is clearly the 2015/16 base budget from which projections can be made using known or estimated data and the assumption that the services provided in that figure will continue at the same level and performance. In addition to this there are certain key assumptions which have been applied and these are:

(a) Pay inflation: An assumption of a 1% rise is made for 2016/17 for staff in line with Government expectation followed by rises of 1% in each of the following years.

(b) Increments. These are no longer funded as part of the budget build. Any changes in employees’ salaries will have to be met by the service.

(c) General inflation: Inflation is a routine and unavoidable cost pressure for Torbay and is part of the Council’s budgetary process. A unique inflationary factor is applied to over 40 individual items of expenditure where the cost changes are highly likely such as contractual inflation and for energy costs such as electricity and gas. For 2015/16 approx. £2.0m was included.

(d) Revenue Impact of Council decisions: Where Council has taken a decision that will impact on future revenue budgets this is included. For 2015/16 and future years the impact of employing 35 apprentices has been included. In addition the decision to provide £20m towards the South Devon Link Road due to be operational by 2016/17. At present only funding to support £6m has been identified therefore the borrowing and repayment costs of the remaining £14m, (worst case assuming no capital contributions), will be an ongoing revenue pressure from 2016/17.

(e) The next actuarial review of the employer’s pension contribution is applicable from April 2017. No assumption about a change in the rate in 2017/18 has been made however there may be an increase due to a reduction in the Council’s total payroll from declining staff numbers to fund the past deficit (which is a cash figure), less staff due to outsourcing such as TDA and TOR2, academy school transfers and ongoing budget reductions.

(f) Changes in employment and employment taxes. The Council faced auto enrolment in pension schemes during 2014 and from April 2016 a pension related 3.5% change in employer national insurance contribution rates.

Service Pressures

All local authorities are faced with making a number of difficult decisions in the face of some of the largest cuts to local government grant within a generation. Whilst the Council will attempt to minimise the impact of funding cuts upon local services through innovative methods of service delivery, working with the community and maximising efficiencies where possible, the expected reduction in future grant funding cannot be managed without significant reductions to service levels and changes in the way services are delivered.

A summary of some of the service pressures which the Council will still be faced with and emerging pressures that may arise once the full impact of the cuts to public expenditure are realised are listed below.

Service Pressures arising:

The continuing financial impact of service pressures within Childrens Services due to increasing numbers and complexity of cases. In addition to the £4m extra funds provided in the 2013/14 and 2014/15 budget for safeguarding and the use of £1.5m from reserves, this service is expected to have service pressures of a further £2.7m in 2014/15 (as at Q3 2014/15). An overspend of this level is unsustainable and the Council will have to make budget reductions to other services, above and beyond those required by reductions on central government funding to continue to provide this level of service. However to mitigate this service pressure a budget recovery plan for Children's services was approved by Council in October 2014 which recommended the use of £3.5m of reserves to support children's services in 2015/16 and 2016/17 before, based on the plan, the service starts to underspend in 2017/18 when it will be in a position to repay the reserves used.

There are short term risks to achieving the approved budget reductions for services. The budget reductions identified for 2015/16 are challenging for all services and there is an underlying risk that these will not be fully achieved.

There are a number of significant changes in Adult Social Care which could impact on financial performance – these include the results of a judicial review on Care Home Fees, the implementation (and ongoing operation) of the Care Act changes, the implementation of a pooled budget from April 2015 of the Better Care Fund with Health and the delay in and changes associated with the acquisition process of the Provider Trust by South Devon Healthcare into an Integrated Care Organisation (ICO).

The Council has seen a reduction in its income levels in the previous years linked to the economy such as planning income. These pressures are expected to continue to stabilise in the short term linked to the state of the economy however there could be a reversal of the trend in the medium term.

Demographics

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

Information on the Council's demographic is available on the Council website. Some headline statistics include:

http://www.torbay.gov.uk/index/yourcouncil/factsfigures.htm

Indicator	Torbay	South West	England & Wales
Population	131,000	-	-
Households	59,000	-	-
Population over 65+	23.6%	16.5%	19.6%
Population over 50+	44.5%	36.0%	37.7%
Working Age in Work	69.4%	76.4%	70.1%
Benefit Claimants	19.6%	12.3%	14.7%

Source – Torbay Facts & Figures – July 2012

Torbay has a higher-than-average elderly population and it is expected that this will grow significantly over the next twenty years. In addition to the pressure on Adult Social Care there will also be general growth in population. It is anticipated that the local population will grow by over 1,000, (300 households), per annum with a consequent pressure on services (e.g. housing, benefits, education, community facilities, and transport).

Provision has been made in the plan for 2016/17 onwards for demographic growth of £2.5m per annum but this will be under significant pressure to resource within ongoing efficiencies and changes to service delivery.

Changes to Council Functions and Initiatives

There are a number of changes in local government functions that will be included in the Council's financial planning. A number of significant changes are listed below. Some of these have already come into effect but will impact on 2015/16 and future year budget setting process.

Change in Functions	Description	Timing
Academy Schools	Transfer of schools	April 2011, ongoing
Housing Benefit	Transfer to Universal Credit	To be confirmed
Medical Examiners' Death Certification	New Council responsibility	Expected during 2015/16

In addition there are a number of initiatives being implemented by the Council which will also be included in the Council's financial planning. A number of significant changes are listed below.

Initiative	Description	Timing
Waste Reduction	Energy From Waste Scheme	February 2015
Adult Social Care	"Acquisition" process for Provider Trust	April 2015
Youth Trust	New body to run Youth Services	2015/16
Better Care Fund	Pooling of resources with health and Council	2015/16
Local Enterprise Partnership	Pooling of resources with regional body	2015/16
TDA	Further transfer of Council services to TDA	April 2015
Council Restructure	Impact of new Council structure for	April 2015

	service provision	

7 CAPITAL, ASSET MANAGEMENT AND TRESURY MANAGEMENT

The Council's Capital Investment Plan, Capital Strategy, Asset Management Plan and the Treasury Management Strategy are also key financial planning documents and should be read in conjunction with this Plan. These documents are available as part of the Budget Digest on the Council's website at

http://www.torbay.gov.uk/index/yourcouncil/financialservices/budget.htm

There is a direct relationship between the Council's capital and treasury management and the revenue budget – by the minimum revenue provision (for repayment of borrowing), interest costs, interest receipts and the ongoing revenue implications of capital projects either operational or financing.

Capital Investment Plan

The 4 year Capital Investment Plan is updated and reported to Council in February 2012 on a quarterly basis. In addition Council will receive and approve the Capital Strategy and Asset Management Plan which may have an impact on the programme on the revenue budget.

The Plan also includes a potential £20m expenditure on the South Devon Link Road to be funded primarily from prudential borrowing which will be a pressure on future year revenue budgets after the Road is operational.

The impact upon reductions to capital funding is reflected within the Council's Capital Investment Plan, an extract is shown below of the revised 4 year Capital Investment Plan based on approval schemes.

Revised 4 year Plan Jan 2015 (Draft Q3)	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	Total £'000
Capital Expenditure	23,193	28,276	18,925	8,804	**79,198**
Capital Funding:					
Supported Borrowing	156	348	0	0	**504**
Unsupported Borrowing	6,296	15,218	3,220	2,907	**27,641**
Grants	13,916	9,707	14,297	5,512	**43,432**
Contributions	474	330	103	0	**907**
Reserves	1,211	771	100	385	**2,467**
Revenue	389	800	655	0	**1,844**
Capital Receipts	751	1,102	550	0	**2,403**
Total Funding	**23,193**	**28,276**	**18,925**	**8,804**	**79,198**

Table last updated 27th January 2015

The plan is dependent on a number of funding streams – such as government grants, capital receipts and capital contributions such as the community infrastructure levy. Currently there is increasing uncertainty over the level of government grant particularly in 2015/16 where a number of Council capital grants may be pooled with other organisations. In addition the Council is not expected to adopt a local plan until 2015 so the Council will not receive any Community Infrastructure Levy until then.

Treasury Management Strategy

Council approves an annual Treasury Management Strategy. This plan is significantly influenced by the council's approved capital expenditure plan particularly in relation to the timing of spend and the level of prudential borrowing approved that is required to be financed. The Strategy includes estimates for interest rates which will impact on the Councils' investment income and interest payable budgets.

In relation to Treasury Management a key factor is level of council borrowing compared to need over the medium term and its underlying need to borrow which is reflected in its capital financing requirement (CFR). In the medium term the level of Council borrowing should not exceed its CFR. Borrowing levels under CFR indicate that the Council has used cash flow from other sources, such as reserves or working capital to fund capital expenditure.

	2013/14 Actual £m	**2014/15 Revised Est £m**	**2015/16 Est £m**	**2016/17 Est £m**	**2017/18 Est £m**
Total Capital Financing Requirement (CFR)	135	177	178	175	173
Movement in CFR	(1)	42	1	(3)	(2)
Movement in CFR represented by:-					
Net financing need for the year - capital	4	47*	7	3	1
Less: MRP/VRP and other financing movements	(5)	(5)	(6)	(6)	(6)
Movement in CFR	(1)	42	1	(3)	(5)

*Includes 17% share of costs relating to the Energy from Waste facility in Plymouth

	2013/14 Actual £m	**2014/15 Est £m**	**2015/16 Est £m**	**2016/17 Est £m**	**2017/18 Est £m**
External Borrowing	138	138	138	138	134
Other Long Term Liabilities	9	42	40	38	36
Sub Total	147	180	178	176	170
Ratio of net financing costs to net revenue	8%	9%	9%	10%	10%
Total CFR	135	177	178	175	173
Borrowing (over)/under CFR	(12)	(3)	0	(1)	3

Tables last updated 27th January 2015 - Treasury Management Strategy 2015/16

7 RESERVES AND RISK

Reserves

There continues to be a considerable amount of attention and debate given to the level of reserves held by local authorities. The Coalition Government have expressed a view that all Council's could be utilising reserves on a temporary basis during this period of austerity. Conversely as budgets are reduced, risks rise therefore there is a strong view that reserve levels should increase to reflect that increased risk.

Members will be aware the Council annually reviews and revises the level and appropriateness of the reserves being held following recommendations from the Chief Finance Officer taken in the light of the requirements of the Local Government Act 2003 and CIPFA guidance.

As part of the budget process a review of reserves will be undertaken and will be presented to Council. As in previous years all reserves will be robustly challenged by officers to assess where monies can be released to support the financial pressures faced by the Council. However, it is essential that reserves are sufficient to meet future demands and commitments and to ensure the level of reserves takes into account the current and future risks faced by the Council. Where reserves are reduced and released these can only be used to fund one off initiatives and not ongoing commitments.

The 2015/16 Review of Reserves report was approved by Council in October 2014 and can be accessed in the link to the 2015/16 Budget Digest in section 7 above.

The significant funding reductions the Council continues to face and the increased financial risks from not achieving these reductions combined with significant service pressures in Childrens social care increases the financial risk to the Council and therefore the Council should consider meeting these risks by protecting and maybe increasing its reserves. The three main pressures are:

- Financing any 2014/15 overspend that cannot be met from reductions to other services
- Financing any 2014/15 cost implications of the Judicial Review for Care Homes Fees
- Financing the costs of reducing budgets, primarily the costs of staff reductions and any set up costs for revised service arrangements
- Supporting the 2015/16 and future year revenue budget if the required savings are not achieved to ensure a "robust" budget or there is a delay in realising these savings.
- To fund, in the short term, the £3.5m identified in the Children's Service Cost Reduction Plan approved in October 2014 by Council.

These risks are significant and the Council needs to ensure it has an appropriate level of reserves.

Risks

The projected budget gap over the life of this Plan is an estimated position and is subject to change and is based upon a series of assumptions and projections which will be regularly reviewed for future years to ensure they continue to be realistic.

There is therefore a risk that the projections for the budget deficit may prove to be under-estimates – primarily due to the number of significant changes to the system for local government finance and the unknown level of funding/cuts expected in 2016/17 and future years. There is uncertainty as to the full impact upon the Council of changes in funding arising from the impact of Academy Funding and any changes to the other grants. To mitigate this risk, the MTRP will be updated as appropriate to take account of changing circumstances and new intelligence.

The main financial planning risks that will affect the projections are likely to be:

- The effect of Local Government Resource Reviews on grant levels for the next few years linked in part to the General Election in May 2015.
- The potential late announcement (December 2015) of 2016/17 funding figures
- Impact of the Business Rate Retention Scheme on Council income linked to business rate growth
- Impact of New Homes Bonus grant income linked to housing growth

- The amount of the Education Services Grant the Council will receive following the "topslicing" of Formula Grant in order to transfer funding to academies

- Inflation continues to run at a much higher rate than the rates that have been assumed, with no sign of interest rates rising to provide an offsetting income stream
.
- Income projections built into the budget may not be achievable due to factors outside of the council's control e.g. a worsening economic outlook, further reduction in investment yields.

- On going cost of social care both Childrens and Adults.

- The achievement of the Childrens Services 5 year cost reduction plan and the repayment by Childrens of £3.5m of reserves from future savings based on the Plan and £1.5m from the use of the earmarked PFI Reserve in 2014/15.

- Impact of major changes in Adult Social Care such as Care Act implementation, the (expected) Integrated Care Organisation and Better Care Fund.

- Potential revenue costs of major capital schemes.