Overview & Scrutiny
Confidence in your Council

Priorities and Resources 2013/2014 Review Panel

Members
Councillors Barnby, Bent, Darling (Deputy Chair), Hill, Kingscote, Pentney, Pountney, Stockman and Thomas (J) (Chairman)

(Contact Kate Spencer on t: 01803 207014 or e: scrutiny@torbay.gov.uk)

Friday, 30 November 2012 at **9.30 am**
to be held in the **Meadfoot Room, Town Hall, Castle Circus, Torquay, TQ1 3DR**

Agenda

1.	**Apologies** To receive apologies for absence.	
2.	**Review of Reserves** To consider the annual review of the Council's reserves.	(Pages 1 - 14)
3.	**Medium Term Resources Plan** To consider the Council's Medium Term Resources Plan.	(Pages 15 - 35)

Torbay Council

TORBAY COUNCIL

Title:	**Review of Reserves 2013/14**		
Wards Affected:	**All Wards in Torbay**		
To:	**Priorities & Resources Panel**	On	**30th November 2012**

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1. What we are trying to achieve and the impact on our customers

1.1 The Council holds a number of reserves as part of its approach to prudent resource management. These reserves are applied to both specific and general purposes for the benefit of the communities of the Bay. The application and use of the reserves supports the achievement of service delivery and improvements in the Bay, as outlined in the Community and Corporate plans and related strategies.

2. Recommendations

2.1 That Council approve the transfer of the surplus of £1.4m identified on a number of individual reserves to the Comprehensive Spending Review Reserve.

3. Key points and reasons for recommendations

3.1 A Review of Reserves is a key part of the Council's budget setting process. Consideration of reserve levels is linked to legislation for budget setting contained in both the Local Government Act 2003 and the Localism Act 2011.

3.2 As a result of the increasing risk from the financial pressures facing the Council, in particular from social care and the requirement for ongoing significant budget reductions, on achieving a balanced revenue budget it is recommended that the surplus on a number of reserves, of approximately £1.4m identified, is transferred to the Comprehensive Spending Review Reserve.

For more detailed information on this proposal please refer to the supporting information attached.

Paul Looby
Chief Finance Officer

A1. Introduction

A1.1 The background as to the Council's responsibilities in relation to its reserves and the Council's current reserve policies are in appendix two to this report.

A2 Review of Reserves 2013/14

A2.1 Overview

A2.2 As at 31/03/2012 Torbay Council's reserves were as follows:-

31/3/11		31/3/12	31/3/13 est.	Change
£m		£m	£m	£m
4.0	General Fund Reserve	4.0	4.0	0
5.3	Uncommitted Reserves	3.6	3.4	(0.2)
14.9	Timing of Spend Reserves	15.4	8.9	(6.5)
2.8	Partner/Ring Fenced Reserves	3.6	2.6	(1.0)
2.5	School Reserves	3.5	3.0	(0.5)
9.1	Specific Reserves	10.4	6.2	(4.2)
38.6	**Total Reserves**	**40.5**	**28.1**	**(12.4)**

A2.3 A list of the Council's Reserves as at 31/03/2012 is attached at Appendix 1.

A2.4 The table in A2.2 shows that the total reserves held by the Council increased by 5% during 2011/12 with over 50% of that increase in schools' reserves. The General Fund Reserve remained at £4.0 million during the same period. This is discussed in more detail below.

A2.5 Each reserve has been assessed by the Service Manager and their finance manager for its estimated balance as at 31st March 2013 and for the estimated additions or withdrawals from the reserve during 2013/14 and future years. This is included in the table at Appendix 1. This table is shown after the recommendations arising from this report.

A2.6 The table in A2.2, (based on the review of reserves), shows that the level of reserves is expected to decrease during 2012/13 to £28.1m. The actual balance at year end will depend on spend during the year and any year end service carry forwards from unspent revenue funds and/or unspent grant allocations.

A2.7 More information on all Council Reserves is available that shows details about each reserve, including the reason/purpose of the reserve, how and when the reserve can be used and the process for retention of each reserve to ensure continuing relevance and adequacy.

A2.8 The CIPFA guidance on Reserves and Balances (LAAP 77 issued November 2008) advises that "Chief finance officers should take account of the strategic, operational and financial risks facing the authority. The assessment of risks should include external risks, such as flooding, as well as internal risks". The CIFPA guidance lists a number of assumptions to be considered when forming a budget, which although these directly link to the setting of a budget, the level of risk and uncertainty of these assumptions will be relevant in determining an appropriate level of reserves. These assumptions and notes to consider in relation to reserves are listed in Appendix Two.

A2.9 There has been national comment about Councils using reserves to support revenue budgets. In December 2010 the Minister for Communities & Local Government said:

"Just like any household facing challenging times, all good councils should be considering the merits of temporarily dipping into the money they have set aside as part of their plans to address immediate financial challenges, with a view to building up their reserves again in the sunnier days to come."

The Chief Finance officer is reluctant to use reserve funds, which can only be spent once, to support ongoing expenditure as that is not financially sustainable as it only delays the impact of the required budget reductions. However if the Council identifies any surplus funds from the review of reserves then this could be used to support one off expenditure. Any use of reserves for ongoing spend on an invest to save basis must be repaid and will become a call on future year's budgets.

A2.10 Earmarked Reserves

A2.11 Specific comments on the following reserves are listed below along with any recommendations. For the Earmarked Reserves where no specific comment has been made below, it is suggested that no changes are made, however officers can provide further detail if required. Where possible the predicted balance as at 31/3/13 on a number of reserves has been reduced by 10%.

A2.12 Uncommitted Earmarked Reserves – balance £3.6m 31/3/12 *(£3.4m 31/3/13)*

A2.13 In the 2011/12 revenue outturn report presented to Council in July 2012, it was recommended that a number of uncommitted reserves were now included within the Comprehensive Spending Review Reserve, that was originally established in 2010/11. The purpose of this reserve was identified as follows:

- short term support for the (revenue) budget while services adjust spending to new levels
- financing of any costs in relation to reducing services and therefore staff numbers
- to support any initial costs of changing service delivery that will result in future savings

Any use of this reserve for invest to save schemes must be supported by a robust business case and signed off by the Chief Finance Officer.

A2.14 The unallocated balance of £1.0m on the unringfenced performance reward grant, (in service carry forward reserve as at 31/3/12), has also now been transferred to this reserve from being held as a service carry forward. This can support the budget pressures facing the Council and its partners.

A2.15 The balance on this reserve will be impacted by the Council's current 2012/13 budget situation, where the quarter two monitoring report is reporting a significant overspend from pressures on social care – both adults and Childrens. £1.1m from this reserve has already been transferred in 2012/13 to support Childrens services. If other compensating savings can not be achieved in other budgets/services then this reserve will have to be used to fund any overspend in 2012/13.

A2.16 The cost of severance packages for staff as the Council faces budget reductions are a significant budget pressure. As a guide the cost of "exit packages" as reported in the Council's accounts, (which include schools), for 2010/11 and 2011/12 was £3m over the two years. To date in 2012/13 a further £0.6m has already been incurred. The significant budget reductions facing the Council for 2013/14 is likely to entail additional severance costs, which have been estimated at £1m, with a further £0.5m for each of the following years.

A2.17 Given the significant budget challenges facing the Council and the associated costs of reducing staff numbers it is recommended that the surplus identified on a number of reserves of approx £1.4m is transferred to this reserve and this reserve is solely used for funding any in year over spends and the costs associated with budget reductions. In addition given the uncertainty of the Council's funding levels in 2013/14, due to both the expected late announcements of grants and the late finalisation of the new Council funding legislation, any funding shortfall in setting the 2013/14 budget could have to be funded from this reserve pending identification of further budget reductions.

A2.18 <u>Timing of Expenditure Reserves – balance £15.4m 31/3/12 *(£8.9m 31/3/13)*</u>

A2.19 These reserves arise as a result of differences in timing between the reserve being established and the expenditure being incurred. Some of these are short term, such as services' carry forwards and the collection fund, where the expenditure should be incurred within 12 months. Other reserves are spreading costs over a number of years, such as the PFI sinking fund that equalises the costs of the annual unitary charge over the 25 years of the contract. No significant changes are proposed to these reserves as these are required for specific purposes or future spending plans and any proposed use of these reserves will create a future budget pressure.

A2.20 Collection Fund

The Collection Fund Adjustment Account (formally Collection Fund Reserve) is slightly different from all other reserves. Legislation requires any balance (surplus or deficit) to be applied at the next Council Tax setting to the three precepting authorities (Torbay, Devon & Cornwall Police Authority and Devon and Somerset Fire Authority). (Note Brixham Town Council as a minor precepting body does not bear any share of surplus or deficit). Any balance represents the sum collected over or under the assumed Council Tax collection rate and is normally distributed in the following financial year.

In relation to the Torbay share of the Collection Fund surplus, there is a surplus in this reserve as at 31/03/12 of £3.1m of which £2.2m was planned to be used in 2012/13. Estimates of future year surpluses will be dealt with in the report to Members on the Council Tax Base during the 2013/14 Budget Setting process and reflected in the Medium Term Resource Plan.

A2.21 Prudential Borrowing Reserve

The balance on the prudential borrowing reserve is to be used to both spread the costs of timing differences arising from the Council's statutory revenue provision calculation and the actual repayments from services for unsupported borrowing, and also to support the reduction in Council borrowing costs in future years by either repayment of Council borrowing over the next four years in line with approved Treasury Management Strategy or by voluntary revenue provision transfers. As a result the Chief Finance Officer considers it would not be prudent to significantly reduce the balance of this reserve. However due to the uncertain financial climate facing the Council it is proposed the balance on this reserve be reduced by 10%.

A2.22 <u>Partner/RingFenced Reserves – balance £7.1m 31/3/12 *(£5.6m 31/3/13)*</u>

A2.23 These reserves are outside the Council's direct control in that the reserves are linked to funds held by partner organisations, schools, economic development company or the ring fenced harbour account.

A2.24 The balance held by schools under delegated funds will change based on expenditure in schools and are likely to reduce as more Council schools become academies. A notional £0.5m annual reduction in the balances held by schools has been shown in Appendix 1.

A2.25 <u>Specific Issue Reserves - balance £10.4m 31/3/12 *(£6.2m 31/3/13)*</u>

These are reserves set aside for specific expenditure purposes.

A2.26 Insurance Reserve

The balance as at March 2012 for both the insurance reserve and the insurance provision before the addition of any current year surplus was approximately £4.5 million. The Council's insurance team in consultation with the Chief Finance Officer review the earmarked amounts on an annual basis and take advice from an insurance actuary to ensure the adequacy of the reserves. The last actuarial review was a "mini" review as at March 2012. (The next full review is due March 2014). In addition the ongoing position with Municipal Mutual Insurance (MMI) Limited and any potential calls on the Council's resources that may arise are reviewed.

Of the total of £4.5 million, £2.1 million covers earmarked amounts for specific insurance risks such as Municipal Mutual Insurance (MMI) - both Torbay Council and Devon County Council liabilities, residual Devon County Council liability relating to services transferred to Torbay in 1998, a number of uninsured risks such as environment issues and industrial diseases (e.g asbestos) and monies for risk management initiatives. The balance within the reserve and provision which is earmarked for current and as yet unknown claims as at March 2012 is £2.4 million which is broadly in line with the actuarial assessment of potential liabilities combined with an allowance for the Council's "stop loss" i.e the level the Council's exposure is limited to. However, given the Council's overall financial position it is suggested that a one off reduction in the total reserve of £0.350m is possible. This does however reduce the level of the insurance reserve, which is a risk that should be considered. Given the potential long lead in time for certain insurance claims, such as those relating to children and certain types of industrial diseases, any shortfall in this reserve may not be realised for a number of years. In addition from April 2013 the Council is responsible for the Public Health function, (from the NHS), which will result in potential additional liabilities for the Council, which may or not be fully insurable. Officers are currently reviewing the insurance implications of this transfer of responsibility.

In relation to Municipal Mutual Insurance (MMI) there is increasing uncertainty over the ability of MMI to achieve a "solvent run off of claims" which will result in a liability for the Council under the scheme of arrangement. (The MMI liability arises from the financial difficulties this insurer faced in the 1990's). In March 2012 MMI lost a Supreme Court judgment in relation to responsibility for mesothelioma cases which has increased the risk of a solvent run off not being achieved. The last MMI annual accounts (June 2012) state that the board "will be unable to foresee a position….to achieve payment of agreed claims in full and hence consideration will be given to triggering the scheme of arrangement". In November 2012 the Council was informed that the scheme of arrangement has now been triggered. In light of this increased uncertainty it is suggested that the Council's current insurance reserve for this potential liability remains unchanged.

A2.27 Pensions Reserve

The Council's employer's contribution rate of 17% is assessed by the actuary as the rate to generate a cash figure that will cover the Council's long term pension liabilities based on the actuarial estimate of the Council's pay costs. As the number of Council staff declines and therefore the Council's pay costs – (both from the TUPE of staff to other service providers such as TOR2 and the Economic Development Company and from budget reductions) - the cash figure generated from a 17% rate the Council will make to the fund may not meet the cash figure identified by the actuary. This is offset in part by the transfer of pension liabilities for future employment to the other service providers which will reduce the Council's forecast liability; however the Council retains the liability for those staff up to date of transfer and in some cases has guaranteed to fund future pension costs such as with TOR2.

The next actuarial review, undertaken in April 2013 – effective from April 2014, will result in higher employer contribution rates as result of the declining Council staff numbers. However as the Local Government Pension Scheme is significantly reformed from 2014, the future increase in contributions from declining numbers is likely to be offset by a reduction in future liabilities from the reforms. However to offset the shortfall in contributions up to 2014, due to declining staff numbers and therefore reduced cash contributions to the fund, the balance on the reserve will be applied as a lump sum payment to the Scheme in 2012/13. If a lump sum payment is not made any shortfall from the Council's lower cash contributions will be reflected in the Council's future contribution rate which will be a budget pressure fro 2014/15 onwards.

A2.28 Other Specific Reserves:

The Employment Fund (£0.3m) was set up as part of the outturn 2011/12 to support employment initiatives. The use of this reserve to support employment is being considered but has not yet been allocated to a specific proposal. However a proposal on the use of this reserve to support local businesses is expected to be presented to Council in the next few months. It is proposed this balance be reduced by 10%.

Riviera Centre Reserve (£0.250m) was set up to support the future options for the centre. This has not yet been allocated to a specific proposal. It is proposed this balance be reduced by 50%.

The TDA Capital Scheme reserve (£0.4m) is held to support regeneration schemes in the Bay. It is intended that this could be used to support the development of an innovation centre at White Rock or support any potential funding shortfall on the Brixham Regeneration project. It is proposed this balance be reduced by 50%.

Land Charges (£0.2m). Changes in central government guidance and interpretation of legislation regarding the “environmental” data Councils hold has led to considerable uncertainty regarding the charging of fees and in particular whether Councils will be required to repay fees previously charged. This issue is still being considered on a national basis which the Council will continue to monitor; therefore it is recommended that the balance on this reserve is maintained. It is proposed this balance be reduced by 10%.

On the review of reserves a number of other balances have been identified as surplus. These total £0.4m including funds from LABGI, employment issues, service carry forwards, elections and the equipment fund. It is recommended that the surplus on these reserves of approximately £0.4m identified is transferred to the Comprehensive Spending Review Reserve. In addition, where possible the level of a number of these other reserves has also been reduced by 10%.

A2.29 Potential Liabilities

The Council, as identified in its Statement of Accounts, has given a number of guarantees. The Council has also entered a number of contracts which could lead to a future liability such as dilapidation costs on leased in buildings. In particular the Council has provided a guarantee to bankers to the Torbay Coast and Countryside Trust for £975,000 to provide cover for the Trust’s loan and overdraft facility. If the bankers call the guarantee the Council will have to fund the £975,000 from its own resources which will probably result in the use of reserves.

In addition the Council has provided a number of guarantees for pension liabilities to services now outsourced, such as Provider Trust and the Economic Development Company, however it is unlikely that these guarantees will result in a cash payment from the Council.

A3 Review of Provisions and other Potential Liabilities

A3.1 In addition to earmarked and general reserves the Council also holds provisions for a number of issues where the Council has a clear liability which is probable to result in a payment but the amount and timing of the potential payment is uncertain.

A3.2 As at 31/03/2012 Torbay Council’s provisions were as follows:-

10/11		11/12	Change
£m		£m	£m
0.6	Insurance Provision	0.6	0
0.1	Pay Modernisation (incl. schools)	0.1	0
1.3	Restructure/Budget Reductions	0.6	(0.7)
1.0	Other Provisions	0.3	(0.7)
3.0	**Total Provisions**	**1.6**	**(1.4)**

A3.3 The provisions above were based on the latest information as to the value of the potential liability, as such no changes in the value of these are proposed. It is expected that the majority of these provisions will be used within 2012/13 except insurance where the “time lag” on claims being notified and settled is often over one year.

A4 General Fund Reserve - Risk Assessment and Sensitivity/Scenario Appraisal

A4.1 The Councils General Fund Reserves of £4.0 million represents 3.2% of the Council's net 2012/13 budget. Using the Audit Commission profiling information this level of "unallocated financial reserves" is low compared to other unitary Councils.

A4.2 The CIPFA guidance on reserves does not recommend a statutory minimum level of reserves. It states that "Local Authorities should make their own judgements on such matters taking into account all the relevant local circumstances which will vary between Authorities". CIPFA also state that "a well managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of reserves".

A4.3 A risk assessment of all 2012/13 budgets suggest that the maximum overspend in any year, if all services were subject to adverse pressures and where there isn't any specific service related earmarked reserve, would be £7.5 million or 6% of net revenue budget. An estimate should be added to reflect any, as yet unknown, in year budget pressures, potential Bellwin scheme claims (emergency planning) and to reflect the financial risks inherent in any significant new partnerships, outsourcing or capital developments, say £1.0 million. This would result in a required General Fund reserve of £8.5 million or 7% of net budget. The current level of General Fund Reserve will cover just under 50% of this sum.

A4.4 This risk assessment overall is higher than the previous year as the higher value areas of volatility that were identified as a high risk last year have continued to cause pressures on the Council's revenue budget still exist, in particular the budget monitoring issues in relation to Childrens and Adult Social Care. In addition the challenges of achieving the significant budget reductions creating a higher risk of budget variations.

A4.5 A key consideration within this risk assessment is the level of the risk of budget variances passed to partners or other suppliers via service delivery contracts. A key partner for the Council is the Torbay Care Trust as the level of funding to the Care Trust is over £42 million per annum. For 2012/13 the Care Trust and Council have not agreed to share the risk of any over or under spends on the most volatile budget area. Although the Council and Care Trust are currently discussing risk share arrangements for 2013/14 as part of the 2013/14 budget process, at this stage it is unlikely that a risk share will be agreed for 2013/14. The risk assessment above continues to reflect this significant uncertainty.

A4.6 However a prudent risk based approach to budget setting and reserve levels will have mitigated some risks of an overspend, although it should be noted that two areas of high risk, (Childrens and Adult Social Care), have already declared significant overspends in 2012/13. It is unlikely that all budgets will be adversely affected in the same year or that there will be no underspend arising from savings or additional income. Therefore the General Fund Reserve should as a minimum be equal to 50% of the total assessed risk in any financial year which equals to 3.4% of net budget. This for 2013/14 will result in a required general fund reserve balance of £4.2 million. At this stage the current general fund balance of £4.0 million is below the target level of 3.4% of the Council's net budget requirement.

A4.7 Following consideration of the above, in the opinion of the Chief Finance Officer, the current level of general fund reserve should not be reduced and ideally increased to reflect the higher level of risk, as balances would fall below a prudent minimum level. Therefore it is recommended that members give consideration to increase the level of this reserve as part of its Medium Term Resource Plan.

A4.8 The 2013/14 budget to be presented to Members will also include an assurance statement from the Chief Finance Officer about the adequacy of the proposed financial reserves, in accordance with the requirements of section 25 of the Local Government Act 2003.

Capital Investment Plan

A4.9 It is assumed that in the circumstances of a significant overspend within the Council's capital programme this will be covered by alterations to the timing of the Council's capital programme, use of the capital contingency or from additional borrowing within the Council's approved Prudential Indicators. Any additional borrowing costs would have to be met from the Council's revenue budget.

A4.10 The Council's capital plan has a contingency of £1.1 million – this is approximately 1% of the current four year capital plan. It should be noted that all capital projects should have contingencies within the individual project costs.

A5 Chief Finance Officer Statement.

A5.1 I am satisfied that the Council's General Fund and Earmarked Reserves, including Insurance Reserves, are adequate for the Council's Financial Plans and to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment.

A5.2 An updated statement on the level of reserves and their adequacy in relation the Council's financial plans, will be presented to members when Council considers the final budget proposals in February 2013.

A6 Governance of Reserves.

A6.1 Appendix 1 shows the projected balances of the reserves at the end of the current financial year and future years. These balances are based upon planned levels of spending. In the event of any unplanned expenditure occurring in the financial year current Standing Orders and Financial Regulations will apply.

A6.2 The Reserves will continue to be reported as part of the Council's Statement of Accounts and subject to a formal annual review and challenge as part of the budget process by both members and senior officers. Councillors should consider the Councils General Fund Reserve as part of the annual budget setting process.

A6.3 As the purpose of each earmarked reserve is clearly stated it is not considered necessary to report movements on earmarked reserves on a quarterly basis to Council or to the Overview & Scrutiny Board. Any quarterly reporting of issues relevant to earmarked reserves will be on an exception basis. Where appropriate a "withdrawal from reserve" form is completed and signed by the Chief Finance Officer and the Mayor.

A6.4 Any budget variations that are reported to Council which can not be funded from existing revenue resources will then, as a consequence, impact on the projected balance on the General Fund Reserve.

A6.5 Schools reserves are part of the delegated schools funding and these reserves remain at the discretion of the Head Teachers and Governing Bodies.

A7 Opportunity Costs

A7.1 Where a reserve is above the target levels, Members need to consider the opportunity costs of maintaining these reserve levels. Members need to consider that a reserve above a target level will provide benefits from reduced financial risk in that reserve and the cash flow benefits holding these levels brings from increased investment returns. These benefits need to be compared to any benefits (or opportunities) that may arise from using the reserve to support service delivery or a specific project. This "opportunity cost" of maintaining reserve levels compared to alternative spending options needs to be carefully considered.

A8 Risk assessment of preferred option

A8.1 Outline of significant key risks

A8.2 It is important that the issues raised in this report are considered by Members and appropriate action is taken, where necessary, to ensure that the Council has adequate reserves in the short and medium term. Failure to consider the issues raised within this report and take appropriate action could result in the Council having insufficient reserves that could adversely impact on the revenue budget.

A8.3 The two major risk facing the Council at present are the challenging budget reductions as part of the Government's Comprehensive Spending Review. There is press speculation that the deficit reduction plans could be extended beyond the current four year spending review.

A8.3 The second is the challenge of ensuring both a balanced budget for 2012/13 and a robust 2013/14 budget for social care – both adults and childrens. Both services significantly overspent in 2011/12 and are predicted to do so again for 2012/13.

Appendices

Appendix 1 Council Reserves as at 31/3/12
Appendix 2 Background to Reserves and Council Policy

APPENDIX1

2013/14 - Review of Reserves

Reserves	Balance as at 1/4/12 £'000	Balance as at at 1/4/13 £'000	Balance as at at 1/4/14 £'000	Balance as at at 1/4/15 £'000	Balance as at at 1/4/16 £'000
General Reserves					
General Fund	3,964	3,964	3,964	3,964	3,964
	3,964	3,964	3,964	3,964	3,964
Earmarked Reserves:					
Uncommitted Reserves:					
Comprehensive Spending Issues	3,026	3,386	2,736	2,236	1,736
Change Management & Financial Strategy	150	0	0	0	0
Budget Pressures	444	0	0	0	0
	3,619	3,386	2,736	2,236	1,736
Timing of Expenditure:					
Capital Funding Reserve	1,119	1,722	661	261	261
Collection Fund Reserve	3,072	2,162	871	795	813
Council Elections	38	59	101	143	-20
Prudential Borrowing	2,257	1,131	1,081	1,031	981
PFI Sinking Fund	3,328	3,369	3,360	3,273	3,179
Service C/fds & Unspent Grants	5,279	297	128	11	2
Civic Hub Reserve	315	190	65	0	0
LABGI	10	0	0	0	0
	15,418	8,929	6,266	5,513	5,215
Partner/Ring Fenced Reserves					
Devon Audit Partnership	42	34	34	34	34
EDC Reserves (Funds paid in advance)	1,574	1,000	500	0	0
School Balances	3,518	3,018	2,518	2,018	1,518
Harbours Reserves	1,165	791	529	401	347
Public Health	436	436	0	0	0
Education Schools Redundancy/Retirement	331	271	211	151	91
	7,065	5,550	3,793	2,605	1,991
Specific issues					
Art Objects Purchased Fund	22	11	11	11	11
Crematorium	50	45	45	45	45
Asset Issues & Disposal Costs	188	137	112	87	62
Dilapidations	212	217	217	217	217
Employment Fund	305	275	225	175	125
Equipment Reserves	265	108	58	48	-12
Employment Issues	214	135	85	35	-15
Education Early Retirement	144	127	124	101	78
Insurance Reserves	3,861	3,491	3,471	3,451	3,431
IT Equipment Reserve	822	211	78	-22	28
Land Charges	192	173	173	173	173
Pearl Assurance House R &M	55	0	0	0	0
Planning Reserve	405	305	0	0	0
Regeneration Reserve	292	0	0	0	0
Riviera centre	211	125	125	125	125
Seaside Towns	50	0	0	0	0
Supporting People Commissioning	734	561	288	74	0
Tourism	161	0	0	0	0
Pension	944	0	0	0	0
TDA - Capital Schemes Reserve	427	214	214	214	214
South Devon Link Road	500	0	0	0	0
Waste Strategy	330	118	118	118	118
	10,384	6,254	5,344	4,852	4,600
Total Earmarked Reserves	36,486	24,120	18,139	15,206	13,542
TOTAL RESERVES	**40,450**	**28,084**	**22,102**	**19,169**	**17,506**

Background to Reserves, Torbay Council Policy and CIPFA advice

Legislative Requirements.

It is the responsibility for a Council's Chief Finance Officer to advise on the level of reserves that they should hold and to ensure there are clear protocols for their establishment and use. Under the Local Government Act 2003 (amended 2011) the Chief Financial Officer has a duty to report on the robustness and adequacy of Council reserves when the Council is considering its budget requirement.

This requirement is in addition to the requirements of the Local Government Finance Act 1992, which requires Councils to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

The Localism Act 2011 introduced new requirements in relation to reserves for the calculation of the Council Tax requirement. These include:

"such allowance as the authority estimates will be appropriate for contingencies in relation to amounts to be charged or credited to a revenue account for the year in accordance with proper practices,

the financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure, and

such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for".

There is no standard or guidance for a minimum level of reserves for each Council, it is the responsibility of each Council, with advice from the Chief Financial Officer, to make their own judgments on such matters taking into account all the relevant circumstances which will vary between Councils.

Purpose of Reserves

Torbay Council, like most Councils, holds reserves for two main purposes

A contingency to cover the impact of unexpected events or emergency. This is often known as a Council's General Fund Reserve. This reserve also, in effect provides a working balance to help cushion the impact of uneven cash flows.

A means of building up funds often referred to as Earmarked Reserves, to meet known or predicted liabilities. These Earmarked Reserves could include:

Sums set aside for known or anticipated liabilities.
Sums set aside for major schemes.
Insurance reserves.
Trading reserves – e.g Harbours.
Reserves retained for Service Department use.
School balances.
Council Tax Collection Fund Balances.

The annual Review of Reserves is a key part of a Council's Risk Management process. If a reserve is assessed not to be adequate, an appropriate contribution from future year's revenue budgets should be planned for, conversely if a reserve is assessed as over provided, the surplus can be used as part of future year budget funding. This review focuses on earmarked reserves and the Council's general fund reserve.

There are other reserves that Councils hold that arise out of legislation and accounting rules but these are not "cash" backed and can not be used for any other purpose. These include revaluation reserve, capital adjustment account and the pension reserve.

Policy for Reserves

It is considered good practice for Councils to have "a soundly based policy on the level and nature of reserves and balances that has been approved by members and reflected in the budget and medium-term resource plan". The following is the Council's current policy for reserves:

Earmarked Reserves:

"Torbay Council will hold earmarked reserves to meet known or specified liabilities. The purpose of each reserve will be clearly stated when established along with a suggested target range for the balance on the reserve. Each reserve will be allocated to the responsibility of a service manager who will at least twice a year review the reserve for both relevance and adequacy. This is to ensure a thorough understanding of the needs and risks of the service/function to which the reserve relates. If a Reserve is assessed as not required or a change in use is requested this will be reported in the next Budget Monitoring Report to Council".

General Fund Reserve:

"The Council will maintain a General Fund Reserve as a contingency to cover the impact of unexpected events or emergency. The Council will at least annually review the reserve and assess the target range for the balance on this reserve in light of the Council's overall financial position".

Financial Planning

"The Council will reflect the results of its policy on reserves in its Medium Term Resource Plan and other financial planning such as the Treasury Management Strategy and Capital Plan. The approved level of balances will be monitored to ensure the Council's financial standing is sound and supports the Council in the achievement of its long term objectives".

Cabinet on 23/10/07 approved (report 271/2007 refers) the Council's policy for Reserves as set out in that report which included that the policy be endorsed not only for 2008/09 but also for all future years. Members, however, are free to recommended changes to the policy if required.

Monitoring of Reserves

The Council monitors and maintains its levels of reserves and balances within the range determined by its agreed policy. Details of each reserve are contained on a specific database which estimates a target range for each reserve. As the use of Reserves tends to be planned there isn't a requirement for detailed quarterly monitoring of reserves. Any significant changes in Reserve use or activity will be reported on an exception basis to Council during the quarterly budget monitoring process. The detailed monitoring of reserves is undertaken on an annual basis by this detailed Review of Reserves. The Council will also consider any appropriate Reserve movements as part of the Council's outturn reporting.

Principles to Assess the Adequacy of Reserves and Scenario Analysis

The CIPFA guidance on Reserves and Balances (issued November 2008) advises that "Chief finance officers should take account of the strategic, operational and financial risks facing the authority. The assessment of risks should include external risks, such as flooding, as well as internal risks, such as budget pressures". The CIFPA guidance lists a number of assumptions to be considered when forming a budget, which although these directly linked to the setting of a budget, the level of risk and uncertainty of these assumptions will be relevant in determining an appropriate level of reserves.

The assumptions and notes to consider in relation to the current conditions are listed below:

Budget Assumption	Sensitivity	Financial Standing and Management

Inflation & interest rates	Inflation is, on balance, a low risk at the current level. Interest rates are a key factor. A 1% change in rates can result in a £0.7m variation	With the current rates of both RPI and CPI inflation is a risk on a number of Council budgets such as utilities. However with the current pay freeze and economic conditions keeping some other inflationary pressures overall inflation rates area low risk. Interest rates (bank base rate) are currently 0.5% and are expected to stay at that level of most if not all of 2013/14. This has an adverse impact on Council investments. The Council's medium term borrowing requirement is already secured at fixed rates.
Level and Timing of Capital Receipts	A 10% drop in value has an impact of reducing receipts by £0.5 million	As a result of the economic conditions there has been a drop in the level of receipts received by the Council and the value of potential receipts on some assets have been reassessed at a lower level. To support the generation of capital receipts there is the Asset Rationalisation Plan which aims to generate the required level of receipts over the four year life on the plan. Due to the low bank rate the major risk associated with capital receipts is the value rather than the timing although a delay in receipts will reduce investment income and could lead to temporary borrowing.
Treatment of Demand led pressures	An average childcare placement costs £40k per annum. A 1% increase in the employer's contribution rate is £0.4m	Certain budgets are often volatile due to changes in demand levels such as for both adult and childrens' social care (from a rising number of children on the "at risk" list) which indicate that this is an area of potential risk. In year recovery plans and planning for the management of future year demand will be critical. The reducing number of Council staff contributing to the pension scheme reduces the Council's cash contributions to the fund which is likely to lead to higher employer contributions in the future. (Subject to any reductions on employee benefits from changes to the scheme).
Treatment of planned efficiency savings/productivity gains/new income streams		The Council is faced with significant budget reductions over the next four years. Some of the savings required may not be achievable from April 2012 due to the time lag in developing and implementing significant changes or cuts to services. Efficiencies are identified as part of the budget setting process and are assumed to be achievable when set as part of a setting a balanced budget. Future efficiencies arising are not assumed until realised.
Financial risks inherent in any new funding partnerships, outsourcing or major capital developments.	A 1% variation on the whole capital plan is approx. £1m	This is a key risk for the Council with the level of both any service changes and its capital programme. Each project is managed in terms of risk and has a project board, however consideration could be given to earmarking reserves to mitigate any potential risk
Availability of reserves, government grants and other funds to deal with major contingencies and the adequacy of provisions	A 1% change on the Council's net spend is £1.25 million	The Council's insurance reserve is separately reviewed on an annual basis. The Council would have access to the Bellwin scheme for uninsurable major incidents.
General financial climate		The impact of interest rates, inflation and capital receipts have already been noted, however there are other risks

		associated with the current economic conditions. These would include lower income levels on services such as land charges and planning, lower levels of tax collection and higher levels of bad debts being incurred etc The money market conditions and in particular the issues associated with Icelandic banks has highlighted risks associated with Council loans and investments. The Council has had no experience of default of any of its investments. The arrangements to manage this risk are outlined in the annual Treasury Management Strategy.

The CIPFA guidance issued in November 2008 was, in part, a response to a higher level of scrutiny of risk arising both from the default of Icelandic banks – including a significant number of local authority investments, and from the costs of the major floods in the summers of 2007 and 2008. The conclusion is that Councils should have adequate insurance cover and an appropriate level of reserves to enable them to manage the demands placed on them from such major circumstances.

Links to other Strategies

The level of reserves has clear links to a number of other Council plans and strategies. The level of reserves will depend on and be incorporated in these other documents. These include:

Capital Investment Plan:

A number of reserves are linked to the purchase or replacement of assets. This expenditure will be treated a Capital Expenditure and funded from the earmarked reserve.

Medium Term Resource Plan:

The results of this review of reserves, in particular the General Fund Reserve balance, will need to be incorporated into the Medium Term Resource Plan. In addition any significant under or over provision on earmarked reserves will need to be included.

Treasury Management Strategy:

The Treasury Management Strategy includes the implications of the level of reserves held for potential cash flow for investment decisions. In addition it will assess the cash flow and financing implications of any significant movement in reserves.

Agenda Item 3

Title:	**Medium Term Resource Plan**		
Wards Affected:	**All Wards in Torbay**		
To:	**Priorities and Resources Panel**	On:	**30 November 2012**

Contact Officer: **Paul Looby**
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1. What we are trying to achieve and the impact on our customers

1.1 The Medium Term Resource Plan (MTRP) is a key financial planning document and support the Council in ensuring it uses its resources in the best way possible to meet the needs of communities in the Bay and to plan effectively for the use of those resources in the medium term.

1.2 The Council's budget planning is an integral feature of its overall corporate planning, ensuring that resources are planned, aligned and managed effectively to achieve its aims and objectives. The Medium Term Resource Plan is a supporting document to the Corporate Plan.

1.3 The MTRP Plan and future financial projections are updated on a rolling basis in order to ensure the impact of new statutory requirements, funding changes and changing demands are captured and the council is able to take these into account within its medium term planning.

1.4 Members will be aware of the significant challenges the Council faces due to the ongoing uncertainties about the national economic position as well as the impact upon the local economy. The government's deficit reduction programme is the policy used to resolve the country's national debt and is having a direct impact upon Torbay with significant reductions in government grant over the 4 years of the Comprehensive Spending Review period.

1.5 Members of the Priorities and Resources Panel are asked to consider this report and make any recommendations to the Mayor and Council when considering options for the council's medium term financial planning.

2. Issues for Consideration by Members.

2.1 That Members review and consider the assumptions made within the Medium Term Resource Plan and how this will impact upon the Council's future financial planning.

2.2 That Members make any recommendations to the Mayor and Council to assist with the medium financial planning.

3. Background

3.1 The Council produces an annual review of its MTRP and publishes this as an aid to assist long term financial planning. Arising from the plan though is the need to develop an associated strategy against which the Council can plan its future budgets with a degree of certainty.

3.2 The government announced a two funding Settlement in December 2010 as part of the CSR period. The funding Settlement which will inform the 2013/14 budget is not expected until late December. Once again this will be an extremely challenging Settlement not helped by the lateness of the announcement. The key issues are contained within the MTRP.

For more detailed information on this proposal please refer to the supporting information attached.

Paul Looby
Executive Head - Finance

A1. Introduction and history

Medium Term Resource Plan

A1.1 The Council considers annually the Medium Term Resource Plan as part of its budget processes.

A1.2 The Council has modelled the potential impact of future Settlements. However all Council's were only been informed of their 2012/13 grant allocation, so it is not possible to accurately project future grant allocations from 2013/14 and beyond.

A1.3 The Council needs to develop a strategy which will focus on providing value for money services and identifying efficiencies through ongoing development of the Commissioning model. With further reductions to funding for public sector and in particular local government, part of this strategy will need to consider continued decommissioning of existing aspects of service delivery, as well as innovative partnership solutions to improve outcomes for the Bay Family.

A1.4 Set out as an attachment to this report is a Medium Term Resource Plan which sets out some of the headline assumptions Torbay is making for planning purposes. Further reports and briefing papers will be presented to Members setting out the impact of any changes to future local government funding and in particular the outcome of the Provisional Local Government Finance Settlement which is expected to be announced at the during December.

A2. Risk assessment of preferred option

A2.1 Outline of significant key risks

Medium Term Resource Plan

A2.1.1 It is essential the key risks within the report are considered and any future spending decisions are taken having considered all risks.

A2.1.2 It is not possible to provide accurate figures about Torbay's grant income from 2013/14 and beyond until the Coalition Government publishes details of the Provisional Local Government Finance Settlement. Until the detailed figures are available the Council can only make its best estimate as to what the potential impact will be upon Torbay.

A2.2 Remaining risks

A2.2.1 None.

A3. Other Options

A3.1 None.

A4. Summary of resource implications

A4.1 To be considered as part of the budget setting process.

A5. What impact will there be on equalities, environmental sustainability and crime and disorder?

A5.1 To be considered as part of the budget setting process.

A6. Consultation and Customer Focus

A6.1 Members of the Priorities and Resources Panel have been asked to comment upon the Medium Term Resource Plan.

A7. Are there any implications for other Business Units?

A7.1 There will be implications for all Business Units and they will be required to contribute to the budget setting process.

Appendix

Appendix 1 Medium Term Resource Plan

1. Overview

1.1 The Medium Term Resource Plan (MTRP) is a key financial planning document and supports the council in ensuring it uses its resources in the best way possible to meet the needs of communities in the Bay and to plan effectively for the use of those resources in the medium term. The 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.

1.2 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 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.

1.3 The major challenge faced by local government is the uncertainty over future grant allocations. The Chancellor will be making his Autumn Statement on 6 December which will set out revised spending plans. It will not be until after this Statement has been made will local government be informed of their grant allocations. **The Council will not have any certainty of its revenue funding until at least the middle of December and it could be as late as week commencing 17 December 2012. This makes any accurate medium term financial planning extremely difficult so further revisions of the Plan will be needed**. Despite this uncertainty this Plan covers the period up to 2016/17 and is based on the best available information at this time. There are three other significant changes which have added to the uncertainty:

(i) the Business Rates Retention Scheme being introduced from April 2013.
(ii) Local Council Tax Scheme introduced from April 2013.
(iii) A reduction in the number of specific grants for local government.

1.4 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 the remaining 2 years of the Comprehensive Spending Review (CSR) period in conjunction with development of the Council's Corporate Plan and priorities.

1.5 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 approximately £25m in the next three years based upon existing service demands and "normal" budget pressures including inflation and demographics for the Bay. This assessment of the budget gap will be refined after the details of the Autumn Statement have been announced and more importantly the local government finance settlement.

1.6 The format for this Plan is to provide an update of the key emerging issues arising from government announcements, assuming the planned reduction in core government funding to Councils of 28% in real terms over the four years of the CSR. The impact upon reductions to capital funding is set out within the Council's Capital Strategy.

1.7 The Council has an excellent record of making efficiency savings through transformation and innovative ways of service delivery and is committed to making further savings to meet future challenges which arise. 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.

1.8 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. The Council has already embarked upon a consultation exercise with residents and stakeholders on the scale and type of reductions to services to address the budget gap in 2013/14. At the time of writing this Plan the Mayor was in the final stages of preparing savings targets to address the estimated budget gap included within this report.

2. National Context

2.1 Members will be aware of the significant challenges the Council faces due to the ongoing uncertainties about the international and national economic position as well as the impact upon the local economy. The coalition government embarked upon a deficit reduction programme when it came to power in May 2010 and this policy has had and will continue to have a direct impact upon local authorities and Torbay with significant reductions in government grant over the remaining 2 years of the Comprehensive Spending Review period. A key factor determining the ability of the government to reduce the deficit is the economy and whilst the government are optimistic that the deficit can be reduced the latest figures from the International Monetary Fund predicted in October 2012 that the UK economy would contract by 0.4% in 2012.

2.2 In addition the coalition Government has introduced a number of significant changes to local government finance which are adding further uncertainty for financial planning. The Chancellors Autumn Statement on 6 December 2012 will set out in detail the coalition Government's spending plans and it will be after this date local government will be clearer as to the ongoing reductions it faces. Unofficially the Local Government finance Settlement is not expected until week commencing 17 December 2012. It will be at this time that Torbay will be clear as to the level of reductions it will be faced with in the short term but the expectation is ongoing budget reductions are likely to continue for the rest of this decade. 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.

2.3 The previous MTRP was based on the Comprehensive Spending Review which was announced on 20 October 2010 for the period covering the financial years 2011-12 to 2014-15. This set out the government's plans for addressing the national deficit over the next four financial years. At a strategic level it indicated that Local Government would see a 28% real terms reduction in resources over the four year period. It has been assumed that this level of reduction will remain but its impact is further complicated by the fundamental changes to the system for local government finance.

Council Tax Freeze Grant

2.4 The coalition Government introduced a council tax freeze grant into the local government finance system in 2011/12. For 2011/12 the grant was paid to those authorities that froze their council tax and this was equivalent to a 2.5% increase in council tax. This grant was built into local authorities base grant in each year of the Spending Review period.

2.5 The Government extended this for a further year in 2012/13 and at the time of the announcement this grant was only payable for one year. Torbay accepted the grant and the loss of the grant income in 2013/14 has been built into the Council's planning assumptions. This amounts to a loss of £1.5m, which forms part of the overall estimated budget gap the Council faces and has to be funded from service efficiencies and reductions.

2.6 On 8 October 2012 the Coalition Government announced an extension of the Council Tax Freeze Grant for a further 2 years. To fund this grant the government have set aside an extra £450m. The freeze grant for 2013/14 and 2014/15 is equivalent to a 1% increase in council tax.

2.7 When considering this offer, Members and Officers need to be aware of the assumed council tax increase and income that has been included within the MTRP. This is explained in more detail section 5 of the Plan. In addition the, government announced that it was proposing to lower the local authority tax referendum threshold to 2%. This means if a local authority wants to raise council tax by more than 2%, local residents would have the right to keep council tax bills down through a binding referendum veto. The Secretary of State for Communities and Local Government will formally set out the detail on this in December 2012 as part of the local government finance settlement.

2.8 It should be noted as with the council tax freeze grant in 2012/13, if the latest council freeze grant is accepted the Council will be faced with a £1.2m shortfall in 2015/16.

2.9 For planning purposes the MTRP assumes that the Council will increase council tax by 2% in 2013/14 and 2% in future years.

Local Government Resource Review

2.10 On 18 July 2011, the Secretary of State for Communities and Local Government, Eric Pickles MP, made a statement in Parliament and launched a consultation paper concerning proposals for business rates retention. The implementation of the scheme forms part of the Local Government Finance Bill which was introduced to Parliament in December 2011.

2.11 The Business Rates retention scheme removes the centralised control of local government finance that currently exists and provides local government with greater autonomy over locally raised resources, and a greater connection with the success and growth of local businesses.

2.12 The main part of the bill results in fundamental change to the system for local government finance i.e. all local authorities will retain a proportion of the business rates generated in a local area. This change is part of the coalition

Government's intention to provide incentives for local authorities to drive and encourage economic growth, as local authorities will be able to retain a share of any growth that is generated in business rates. This is a fundamental change from the existing system whereby all business rates collected is collected by local authorities and paid to government and then redistributed to authorities based on a needs based formula. Whilst local authorities will receive grant allocations based on their needs, in the future it will also be based on how much economic growth can be generated.

2.13 As part of the consultation paper, the government provided numerous complex options as to how the scheme will work. In essence all local authorities will receive a base line position for the amount of Business Rate income they will receive and will be able to retain any additional income above the baseline which provides all local authorities with a clear incentive to encourage business growth.

2.14 These changes do not include changes to how business rates are set or how they are paid as business rate setting powers will remain with the government and the revaluation process will remain unchanged. There are also no changes to the relief currently received by charities and voluntary organisations.

2.15 On 18 October 2012, the coalition government announced that it was postponing the next business rates revaluation until 2017 – the next revaluation was due in 2015. The coalition government's reasoning was as business rates are the third biggest outgoing for local firms after rent and staff costs a delay in the revaluation will mean shops will not be faced by unexpected hikes in their business rate bills over the next five years. As business rates are linked to inflation, there will be no real terms increase in rates over this period. The Government's view is this reform will provide certainty for business to plan and invest, supporting local economic growth.

2.16 However business leaders locally have been disappointed with the announcement as this will mean retailers will continue to pay a business rate levy based on rental values as at 2008, before the effects of the economic crash had been felt.

The Scheme

2.17 The Business Rates Retention scheme is a fundamental change to the local government finance system and is complex. Final details for the scheme will be announced in December 2012. Under the new proposals the overall level of funding for a local authority will reflect the amount which would have been be received under Formula Grant – i.e. revenue support grant and a share of the redistributed business rates - had there been no change to the system. This will be achieved by firstly splitting the business rates collected into the following proportions:

- 50% to central government
- 1% to Fire Authority
- 49% to be retained by Torbay

2.18 As with the current system some authorities collect more business rates than they have redistributed from government and some collect less. To ensure a level playing field at the start of the scheme councils that collect more are classified as "tariff" authorities and those who collect less (such as Torbay) are “top up” authorities i.e. tariff authorities will pay over their excess to government whereas top ups will be paid to authorities with lower business rate tax bases such as Torbay.

2.19 Top ups and tariffs will automatically increase with inflation and authorities will be allowed to keep part of any increase in the growth of the business rates but conversely would face a fall in resources if there business rate base declines.

2.20 Torbay will be a top up authority for the purposes of the business rates retention scheme, as will Devon and Plymouth Council’s whereas the district councils are all tariff authorities.

2.21 To provide protection for authorities that have a decline in business rates the government intends to introduce a Safety Net to ensure that no authority loses more than a predefined level of funding. This is expected to be between 7.5% and 10% and will be confirmed in December.

Pooling

2.22 As part of the Local Government Finance Bill local authorities are allowed to form “pools” for the purpose of business rates retention. Where authorities decide to enter into a pooling arrangement they will be treated as “one authority” with respect to setting a funding baseline. This provides authorities with an opportunity to retain more of the business rates generated in an area due to the way the system will operate. This will help support economic growth and regeneration across a region as opposed to restricting such growth within local authority boundaries.

2.23 All Devon authorities have been working together to assess the potential benefits of pooling. As mentioned, all Devon Districts are tariff authorities and will pay a levy to government under the proposed scheme whereas Devon County, Plymouth and Torbay are top up authorities. The analysis indicates that if all Devon authorities entered into a pooled arrangement they would all be financially better off than if they acted alone: assuming there was not a significant decline in the business rate base across Devon.

Advantages of Pooling

2.24 The main benefits of pooling are:

- a reduction in volatility in business rates income if there is a decline;
- risks are spread across a larger “pool” or number of authorities;
- a greater proportion of business rates collected within Devon will stay in the region – the latest estimates suggest an additional £23m will stay in Devon over a 5 year period resulting in additional income of £3.5m for Torbay.

The issues to consider are:

- appropriate governance arrangements need to be agreed by members of the pool;
- there needs to a lead authority for the pool;
- agreement needs to be reached as to how retained business rates income is shared within the pool.

2.24 All Devon authorities expressed an interest to the Department of Communities and Local Government in July and a further submission was required by 9 November setting out proposals as to how the pooling arrangement will work.

2.25 Torbay is supportive of a pooling arrangement and the Devon wide group have developed governance arrangements and agreed that any sharing of additional business rate income is on the basis that no individual authority would be no worse off if it had not entered the pool. The proposed pooling and governance arrangements have been endorsed by all of the Devon authorities and signed by the Chief Operating Officer and Chief Finance Officer in consultation with the Mayor and Executive Lead for Finance.

2.26 A final decision as to whether a local authority wants to be part of a pool can be taken up to 28 days after the government announce the Local Government Finance Settlement i.e. after the December announcement. As there is so much uncertainty about the level of grant that local government will receive a final decision as to whether there will be a Devon wide pool will not be known until January 2013. It should be noted that if one of the Devon authorities decide to withdraw from the arrangements, the pool will be disbanded for 2013/14 and the next opportunity for a pool arrangement will not be until 2014/15.

3. Income Assumption – Government Grant

3.1 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 and these assumptions were built into the last MTRP. Due to the uncertainty about future grant allocations and the introduction of the business rates retention scheme accurate predictions of future grant allocations are extremely difficult however it is expected that there will be significant ongoing reductions to the grant allocated.

3.2 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 this is an estimated position at this time.

	2013/14	2014/15	2015/16	2016/17
	£'m	£'m	£'m	£'m
Business Rates – 50% share	18.703	19.134	19.631	20.358
Top Up payment	11.818	12.090	12.404	12.863
RSG	40.675	33.777	27.596	21.928
Total Grant Income	71.196	65.001	59.631	55.149
% reduction		8.7%	8.3%	7.5%

3.3 For the purposes of this plan it has been assumed Torbay will have a £16.047m reduction in its core grant from central government over the four year period. This estimate is based on a combination of factors including:

- the fall in the overall resources available to local government;
- the impact of the transfer of specific grants to formula grant;
- the impact of the transfer of resources from local authorities to fund academy schools;
- the impact of any technical changes to the formulae used to allocate grant.

3.4 For the purposes of this Plan it has been assumed that the transfer of Public Health to local authorities in 2013/14 which will be a ring fenced grant and is therefore not included within the overall figures. Public Health service is a commissioned service with a series of contracts with a number of providers. There is a risk that the grant allocation may be less than the total contracted sum with providers – the implications of this will be assessed when the final grant allocation has been confirmed.

3.5 The Council will continue to explore all other opportunities for further grant funding building upon opportunities such as Social Investment Bonds, the availability of European Union grant funding 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 formula grant in future years and the impact this will have upon all services, particularly discretionary services.

3.6 In addition to these reductions it should be noted that Torbay continues to suffer through "grant damping". Torbay's, formula grant allocation reduced by £4m in 2011/12 rising to £4.2m in 2012/13 – which was reallocated to top up the grant allocations for other local authorities. The estimated grant figures for 2013/14 and 2014/15 are based on the fact damping continues in the last two years of the CSR period.

4. Government Grants (Direct and Indirect)

4.1 In recent years successive Governments have moved to amalgamate a number of specific grants into either one, large, specific grant or absorb grants into the Revenue Support Grant. The Local Government Association, supported by local authorities, has supported this approach so that spending decisions can be made at a local level by authorities as opposed to being prescribed by central government.

4.2 The Council does receive grants such as Dedicated Schools Grant (where the majority goes directly to schools) and the Benefit Administration Grant (which is treated as part of the revenue account), and a number of other smaller grants.

4.3 Reductions to grants have been included within the estimated income position which includes the removal of the council tax freeze grant for 2012/13. The government has provided indicative figures for the Early Intervention Grant and this is estimated to fall by up to £1.7m in 2013/14.

4.4 For the purposes of this plan it has been assumed that the section 256 funding from the NHS will continue through to 2014/15 but will not be available from 2015/16. This grant must be paid to council's from the NHS and spent on Adult Social Care and providing health benefits.

5. Income Assumption – Council Tax

5.1 Council Tax income is dependent upon 3 elements in the calculations, namely the Council Tax base, the level of Council Tax and the assumed level of in-year collection. For 2012/13 the base rose by 0.41%, and the Council Tax remained at the same level as the previous year (£1,261.17) due to the application of the council tax freeze grant and the in-year collection rate was assumed to continue to be 96.5%.

5.2 Despite the recession, there has been a small increase in the number of properties on the Council Tax list through a combination of factors. However the calculation of the tax base for 2013/14 is further complicated by the impact of the introduction of the local council tax scheme from April 2013. This will result in all council tax benefit claimants (except pensioners) paying a 25% liability on their council tax which has an impact upon council's tax base i.e. a reduction in the number of band d equivalent properties when calculating the tax base.

5.3 Associated with size of the tax base is the assumed level of collection in-year of Council Tax due. Due to the impact of the recession, the Council reduced its collection rate from 97.5% to 96.5% some years ago. However, the level of council tax collection has remained above the 96.5% so one option could be to consider increasing this to 97%. However, this decision needs to be kept under review for two reasons:

i) with the continuing impact of the economic downturn, it may not be prudent to increase the rate of collection.

ii) in previous plans due to the relatively high level of Council Tax Benefit paid out, it was reasonable to consider retaining an assumption of 96.5% for the period of this plan. However, one of the implications from the introduction of the local council tax scheme is the current level for the council tax collection rate is at risk and needs to be kept under review for future years.

5.4 In terms of growth in the tax base, a minimal increase in the base is expected of 0.2% across all years of the plan.

5.5 As mentioned above the Council has 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 following financial year following collection. In 2013/14 £1.8m will be applied from the fund i.e. the collection fund surplus. However, due to the uncertainty with future collection rates and the impact upon the collection fund, the surplus has been reduced to £0.7m in each of the future years of this Plan.

5.6 The final determinant for external income is the level of Council Tax. In 2012/13 the Council set at rate of £1,261.17 per Band D property which reflected a nil increase over 2011/12 and was funded from the one off council tax freeze grant. The loss of this grant in 2013/14 has been reflected within the council's overall income assumptions.

5.7 The MTRP makes an assumption that council tax would increase by 2% – therefore for the purpose of this plan it is assumed the council will not accept the council tax freeze grant in 2013/14. However the final recommendation as to whether the council will accept the freeze grant will be made after the government announces Torbay's grant allocation in December 2012.

5.8 If the Council accepts the freeze grant this would mean there would be a funding a shortfall of approximately £0.6m next year based upon the assumptions within this Plan. Members are advised that if the one year "discount" offered by the government in 2013/14 and 2014/15 is accepted it will have to be reversed in 2015/16 resulting in an additional budget pressure of £1.2m.

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

	2013 /14 Estimate £'000	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**
Council Tax Base	41,630	41,671	41,711
Council Tax Level (Band D)	1,286.39	1312.12	1338.36
Council Tax Income	53,553	54,677	55,824

6. Summary Income Position

6.1 Pulling together all the information identified in sections 3, 4 and 5 gives the main sources of income and are shown in the table below.

	2012/13 Actual £'000	**2013 /14 Estimate £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**
Formula Grant	60,050	71,196	65,001	59,631
Council Tax	61,823	53,553	54,677	55,824
Collection Fund	1,873	1,800	700	700
Total External Income	**123,746**	**126,549**	**120,378**	**116,155**

7. Reserves

7.1 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 should be utilising reserves during this period of austerity.

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

7.3 As part of the budget process a review of reserves has been undertaken and will be presented to the Priorities and Resources Panel for discussion. 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.

7.4 Due to a number of spending decisions and commitments in 2012/13 the level of uncommitted and earmarked reserves is expected to fall by the end of 2012/13. However, the final level of reserves will be dependant on how the Council manages its in-year spending pressures and the cost of redundancies which will arise from the required reductions in staffing levels to meet the 2013/14 budget targets. In accordance with the current policy any redundancies will be funded from the CSR reserve and are estimated to be approximately £1.0m.

8. Expenditure Pressures – Base Assumptions

8.1 The 2012/13 budget approved by Council in February 2012 provides the base position of the financial strategy. To some extent the estimation of expenditure pressures facing the Council are assessable given certain assumptions. The starting point is clearly the 2012/13 base budget from which projections can be made using known or estimated data on such areas as:

(a) Existing commitments in future years;
(b) Projected inflation and cost pressures; and
(c) Demographic changes in the population.

although this is not a fully exhaustive list and the council has used zero based budgeting when appropriate to challenge existing service budgets.

8.2 The starting figure for the plan is the 2012/13 budget and that the services provided in that figure will continue at the same level and performance. On top of this are certain key assumptions which have been applied and these are:

(a) Pay inflation: An assumption of a 1% rise is made for 2013/14 for staff in line with Government expectation followed by rises of 2% in each of the following years. 2012/13 is the third year of a local government pay freeze and indications from the local authority employers' representatives is they want to start discussions with unions with respect to a pay award in 2013/14.

(b) Increments. These are gradually being reduced over the period of the plan to reflect the impact that job evaluation will have on pay and grade structures - £0.3m.

(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 with reference to Office for National Statistics estimates - £2.2m.

Historically local authorities have suffered inflation that has been at a higher level than the RPI. However, due to the challenging financial environment faced by the Council, unless there are significant inflationary pressures for specific costs pressures a strategic decision has been taken that all inflationary factors will be no higher than 2% - which is lower then the current rate of RPI and CPI.

If inflation continues to remain high, services will need to find additional savings or efficiencies to offset higher rates of inflation. However, all contractual inflation will be amended in line with the appropriate contract and an additional uplift will be applied for energy costs such as electricity and gas. Other cost rises such as landfill tax are significantly in excess of any inflation index. The current level for landfill tax is £64 per tonne and will rise by £8 per tonne to £72 per tonne in 2013/14; this represents a 12.5% increase and will cost the Council an estimated £276,000 making the total landfill cost to the authority an estimated £2.5m in 2013/14.

(d) Capital Programme. The 4 year Capital Investment Plan was approved by Council in February 2012 and the latest position is presented to Members on a quarterly basis. In addition the Priorities and Resources Panel will consider the Capital Strategy and Council will receive and approve the Strategy which may have an impact on the programme on the revenue budget. For the purposes of this Plan it has been assumed that any changes to approved capital plan in 2013/14 and beyond which have not already been identified, will be funded by capital grant (with no revenue borrowing implications), capital receipts or if borrowing is used (assume to be prudential borrowing) then this will be offset by new revenue streams or assumed savings.

Local Council Tax Scheme

8.3 Another significant change is the requirement to introduce a local council tax scheme for residents in receipt of council tax benefit from April 2013. The Council will be considering and approving a scheme in December which will result in all existing council tax benefit claimants having to pay towards their council tax bill. Pensioners are protected and excluded from the scheme.

8.4 As part of the scheme the coalition government will reduce the council's council tax benefit by 10%. In response to this reduction in financial support, the Council has consulted on a proposed scheme and worked closely with other Devon authorities. As a result of this work all Devon authorities have devised similar schemes and will be in the process of approving their individual schemes in 2012.

8.5 The key financial risk of these new arrangements is the impact upon the Council's collection rate for council tax income and any provision required to offset this risk through either a Hardship Fund of increased provision for bad debts. In addition as the grant from central government will be fixed at the beginning of the financial year any increase in the number of council tax benefit claimants during the year will be an additional cost pressure for the council.

8.6 The introduction of this new scheme and the introduction of other Welfare Reforms will have an impact upon the residents of the Bay and is likely to result in increased demands across a range of services.

9 Service Pressures – including the impact of the current economic

conditions

9.1 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. Irrespective of these cuts it is inevitable that residents, voluntary sector and community group's expectations will be that there is no deterioration to grant funding or service levels and they are at least maintained during this predicted period of austerity. Whilst the Council will attempt to minimise the impact of funding cuts upon local services through innovative methods of service delivery 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.

9.2 With the introduction of the Local Council tax Scheme, proposed Welfare Changes – with further reductions to the Welfare bill of £10bn from 2015 - and the expected cuts to all public spending across all government bodies, this will have a disproportionate impact in a deprived area such as Torbay. The evidence would suggest there is a general trend for more deprived areas to face relatively larger percentage cuts through the total impact of public taxation changes.

9.3 The Bay's economy is relatively weak when compared to other regions of England. Torbay's seaside holiday image masks a weak economy with a narrow sectoral base and levels of deprivation more often associated with inner city areas e.g.

- Significant Deprivation - 12 lower super output areas (LSOA) within the most deprived 10% nationally. An increase from 10 in 2007.

- Overall, the 61st most deprived authority (out of 326), 10 places worse than 2007 and ranks the Bay the most deprived Local Authority area in the South West

9.4 The GDP in the Bay continues to remain low with low median earnings for local residents. A key risk of any public sector cuts is the impact upon the Bay which is heavily reliant upon the public sector for employment and wealth generation. Some key statistics include:

- The latest figures show Torbay has a GDP of only 68% of the EU average, 4% lower than Cornwall's (72%) and 43% below the UK total of 111%.
- A low wage low skill economy based around tourism and service sector health accommodation/food and retail.
- The Tourism sector is major part of our economy and contributes £382m to the economy generates 18% of all jobs in the Bay.
- The area is reliant on the public sector, with 36.7% working in public administration, education and health compared with 28.7% in the South West and 27% in Great Britain.
- The average weekly pay of full time employees in the Bay is £406.20 (2011) and this is £96.40 less than the average across Great Britain.
- A high proportion of the working age population are in receipt benefits, 16.5% compared with the national average of 12.5% and 10.3% for the South West.

9.5 Unemployment levels in Torbay are also higher than the national and regional averages

- Unemployment levels at 8.5% compared with 5.2% in the southwest and 7.4% nationally.
- 4.3% of the local working age population claimed Job Seekers Allowance in September 2012 compared to 3.8% nationally and 2.5% in the southwest. The July figure was the highest since 1998. The seasonal nature of Torbay's economy means that this figure may rise later in the year.

9.6 However, whilst employment level among younger people is a national problem the 18-24 Jobs Seekers allowance figures within the Bay are more encouraging. The rate is still high at 8.1%, however the corresponding rate for September 2011 was 1.8% higher. Figures are above the national averages of 7.4 % and regional average of 5.1%

9.7 Members will be aware the Department for Transport approved the South Devon Link Road. As well as improving traffic flows along this route, it is estimated that almost 8,000 jobs will be created in the area with 3,600 created in Torbay. Research indicates that for every £1 invested in the construction of the bypass will provide a £9 stimulus to the local economy providing an economic boost to the area.

9.8 Furthermore, whilst the UK is official no longer in recession, there is continued uncertainty with the national economy and increased concerns within Europe and the inevitable impact upon the UK. The International Monetary Fund (IMF) has said economic growth in the world's leading economies is now expected to be 1.3% this year and 1.5% in 2013 – down from the 1.4% and 1.8% predicted in July. Countries' efforts to reduce their deficits and the continuing weakness in the banking sector were cited as drags on advanced economies.

9.9 Regarding the UK, the IMF noted that, unlike many other advanced economies in Europe, domestic demand remained sluggish. This was because the UK's financial sector had been hit particularly hard by the global financial crisis, while the 'ongoing repair of overstretched private and public balance sheets weighs on the domestic demand'.

9.10 Locally the economic conditions are weak and if the country falls back into recession this will have a significant impact upon the Bay with the subsequent impact upon welfare advice, housing and council benefit applications and business support services.

9.11 Similar to 2011, there was not the expected summer seasonal reduction in Benefit claims that would normally accompany increased business activity and employment in the tourist and retails sectors. The housing benefit case load, as at the beginning of November 2012 is 20,166 live cases and is expected to continue to rise for the foreseeable future.

9.12 The Council needs to develop a realistic Strategy that is flexible and able to respond to the conflict of significantly reduced resources but ongoing services demands and needs reflected in the local economy of the Bay and the need to protect the most vulnerable members of the community.

9.13 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. This will need to be addressed from a diminishing resource base:

- The impact of rising unemployment and workless rates within the local economy and impact upon young adults not in education, employment or training (NEETS) which accounts for 5.1% of young people in the Bay. The most recent data suggests this figures are in line with the South West average and compare favourably with some urban authorities which reflects the impact of investment.

- The pressure within the Bay for affordable homes and the impact of public sector reductions on increased demands within the housing service and increased demands for social housing.

- Welfare reforms proposals including a reduction in local housing allowance rates to claimants, shared accommodation rates increased from under 25s to under 35s, from April 2013 the Government will be implementing a Benefit Cap threshold set at approximately £350 per week for single adults with no children and £500 per week for couples (with or without dependant children) and lone parents with dependant children.

- Service pressures within Children's Services with the increased numbers of children looked after within the Bay and the need to deal with the ongoing Safeguarding issues. The number of Children Looked After have increased steadily from 199 at November 2010 to 258 at the end of September 2012 and the number of Torbay children on child protection plans has risen from 220 at March 2011 to 252 at the end of September 2012.

- The impact to service pressures with Children's Services due to increasing numbers and complexity of cases is being considered as part of the budget assumption for 2013/14.

- The changing demographics within the Bay mean service demands will continue within Adults Social Care due to increasing client numbers with ever increasing and complex needs and the impact of Ordinary Residency cases which are increasing costs. The Trust also has similar Safeguarding issues to deal with, along with the impact of the proposed restructuring and reform of Social and Health Care.

- The Waste agenda continues to have significant ongoing cost pressures for the Council. The Council has a contractual obligation with TOR2 and savings will be delivered over the course of the contract. However with the impact of increasing landfill tax charges for disposal of waste, the Council is a partner with Devon Plymouth Council's in the development of an Energy for Waste plant. This is expected to deliver savings in future years which will be built into the Council's future spending plans.

- The Council has put significant sums of its own resources to fund the national Concessionary fares scheme, but increases in demand for this volatile budget are outside of the control of the Council and will need to be closely monitored in future years.

- The Council has seen a reduction in its income levels, in particular within car parking and planning applications. Further pressures are expected in future years which will be primarily linked to the state of the economy.

- The Council continues to have in place strict controls on the recruitment of staff during the continued period of austerity as enforced by the Council's Establishment Control Panel.

- Other base budget adjustments which are or may be unavoidable or are subject to previous decisions which have been included within the base are as follows:

  - The impact of major capital improvement to be funded from prudential borrowing.
  - Any increases to the Carbon Tax.
  - Impact of the actuarial review of the employer's pension contribution.
  - The requirement to set aside resources to replenish reserves for any invest to save initiatives.

Demographics

9.14 As well as the anticipated reduction in funding, the Council's budget is also being squeezed 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.

9.15 Torbay has a higher-than-average elderly population and it is expected that this will grow significantly over the next twenty years. Some headline statistics include:

- Torbay's population of 131,000, one of the largest area of urban population to the west of Bristol;
- 23.6% of population aged 65 and over, higher than both the national figure of 16.3%, and 19.6% for the South West
- Proportion aged 50+ is 44.5%, this is expected to rise to 48% by 2017

9.16 The additional cost of providing care to this growing population will have to be accommodated within existing budgets at least until 2015. Provision has been made in the plan for future year's demographic growth but this will be under significant pressure to resource within ongoing efficiencies and changes to service delivery.

9.17 In addition to the pressure on Adult Social Care there will also be general growth in population. It is anticipate that over the plan period the local population will grow by over 4,000 with a consequent pressure on services (e.g. housing, benefits, education, community facilities, and transport).

10 Fees and Charges

10.1 The Council receives in excess of £11m from fees and charges. Some charges are set by legislation (e.g. licensing charges) whereas others the Council has discretion to determine the charge. Services are required to set their charges in accordance with the Council's Income Strategy which sets the criteria that need to be considered when setting charges.

10.2 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 be expected to develop these in line with the Strategy and 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.

11 Summary

11.1 Having taken into account the service pressures identified above the table below summarises the estimated income and expenditure pressures faced by the Council and shows the estimated funding gap.

	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Estimated Income (Formula Grant,C.T.& Collection Fund	123,746	126,549	120,378	116,155
Expenditure	123,746	135,850	138,932	141,260
Total Estimated Cumulative Funding Gap		**9,301**	**18,554**	**25,105**
In- year Funding Gap		**9,301**	**9,253**	**6,551**

11.2 The gap identified for 2013/14 is based on the latest projections for expenditure and expected level of grant income. At the time of writing this report the Mayor was finalising his provisional spending targets and how this budget gap can be addressed and the public consultation on the budget will be based on identifying savings that will bridge the funding gap.

11.3 It is clear that the Council continues to face its most challenging period since it became a Unitary authority in 1998 and it will need 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.

11.4 The Council has in place a number of approaches for ensuring value for money and efficiencies are achieved across all services. The Council has undertaken a detailed Service Review exercise during 2012 which will assist the budget consultation process and budget setting process.

11.5 The Council must continue to explore new ways of delivering council services 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 becoming increasingly difficult to generate further efficiencies without reducing service levels, and the Council must start to plan for a reduction in services provided to customers over the medium term.

Risks

11.6 The projected budget gap is an estimated position and is subject to change and is based upon a series of assumptions and projections that will be reviewed after the local government finance is announced in December 2012 and will be regularly reviewed for future years to ensure they continue to be realistic.

11.7 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 cuts expected in future years. In addition there is uncertainty as to the full impact upon the Council of changes in funding arising from the impact of Academy Funding, Early Intervention Grant changes, any changes to the formulae etc. To mitigate this risk, the MTRP will be regularly updated to take account of changing circumstances and new intelligence.

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

- The effect of the Local Government Resource Review on grant levels for 2013/14 and 2014/15

- The "topslicing" by government of Formula Grant in order to transfer funding to academies estimated to be £1.1m

- Inflation continues to run at a much higher rate than the average 2% pa that has 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.