

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 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 than 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 or 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 “toplicing” 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.