Medium Term Resource Plan

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

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

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

Plan last updated on 4th February 2013

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1 KEY SUMMARIES

Overall Summary

Having taken into account the income and expenditure estimates and assumptions detailed in this Plant 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	2016/17 £'000
Estimated Income (Formula Grant, Council Tax.& Collection Fund	123,746	126,765	119,580	119,172	118,742
Expenditure	123,746	126,765	130,369	135,063	139,110
Total Estimated Cumulative Funding Gap			**10,789**	**15,891**	**20,368**
In- year Funding Gap			**10,789**	**5,102**	**4,477**

Table last updated 4th February 2013

Summary Income Position

Pulling together all the information identified in section 5 of this Plan for the main sources of income is shown in the table below.

	2012/13 Actual £'000	**2013 /14 Estimate £'000**	**2014/15 Estimate £'000**	**2015/16 Estimate £'000**	**2016/17 Estimate £'000**
Revenue Support Grant & Business Rate Retention	60,050	72,493	65,344	63,825	62,263
Council Tax	61,823	52,448	53,536	54,647	55,779
Collection Fund	1,873	1,825	700	700	700
Total	**123,746**	**126,766**	**119,580**	**119,172**	**118,742**

Table last updated 4th February 2013

2 TIMETABLE

The key dates in the next 12 months in relation to the Council's budget process are as follows:

2013/14 Budget Approved	Council	February 2013
2013/14 Council tax Set	Council	February 2013
2013/14 Budget Digest published with future years	Chief Finance Officer	March 2013
2012/13 Outturn Reports	Council	July 2013
2014/15 Budget Development	Mayor & Chief Operating Officer	January 2013 – November 2013
2014/15 Budget Consultation	Chief Operating Officer	Autumn 2013
2014/15 Finance Background reports available	Overview & Scrutiny Board	Autumn 2013
2014/15 Mayor's Budget Proposals	Council	December 2013
2014/15 Budget Approved	Council	February 2014
2014/15 Council tax Set	Council	February 2014

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

3 KEY INDICATORS & ASSUMPTIONS

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

	2011/12 Actual	2012/13 Target	2013/14 Target	2014/15
Assumptions:				
Council Tax Rise	-	-	0%	0%
Reduction in Funding	-	-	£3.2m	£7.5m
Savings Required	-	-	£9.3m	£11.0m
Business Rate Growth	-	-	1%	0%
New Homes Growth	-	-	0.2%	0.5%
Key Indicators				
Performance against Budget (% variance)	0%	1%	0%	0%
Long Term Borrowing against long term assets	47%	40%	40%	40%
General Fund Reserve against budget	3.2%	3.2%	3%	3%
Schools reserves against DSG	6%	5%	5%	5%
Earmarked Reserves against budget	23%	17%	12%	11%
Liquidity – current assets against current liabilities	3:1	2:1	2:1	2:1

The estimates within this plan are the Chief Finance Officer's "central view" of estimated expenditure and income. To arrive at this central view alternative scenarios and sensitivity would have been considered if appropriate.

4 OVERVIEW

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.

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.

The major challenge faced by local government is the uncertainty over future grant allocations. The Chancellor made his Autumn Statement on 6 December which set out revised spending plans for 2013/14 and 2014/15. The Council did not receive its provisional revenue funding allocation until the 19th December, with some grant determinations still being outstanding at the date of this Plan. This made any accurate medium term financial planning during the autumn extremely difficult. 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 other significant changes which have added to the uncertainty during 2012:

(i) the Business Rates Retention Scheme being introduced from April 2013.
(ii) Local Council Tax Reduction Scheme introduced from April 2013.
(iii) A reduction in the number of specific grants for local government.
(iv) The reductions in relation to academy schools and the value of the new LACSEG grant (which is still to be announced by central government at the date of updating this report).

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 and the likely deficit reduction plan after that period in conjunction with development of the Council's Corporate Plan and priorities.

The Plan highlights the financial challenges faced by the Council and the fact this Plan estimates the Council will have to close an estimated budget gap in excess of £20m from 2014/15 over next three years based upon existing service demands and "normal" budget pressures including inflation and demographics for the Bay.

Given the size of the potential reductions the Council could consider within the next 12 months developing a rolling 4 year strategy for meeting these reductions rather than the current annual saving process.

The format for this Plan is to provide an update of the key emerging issues arising from central government announcements, assuming the planned reduction in core government funding to Councils of 28% in real terms over the four years of the CSR (2011/12 to 2014/15) The impact upon reductions to capital funding is reflected within the Council's Capital Investment Plan.

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.

As articulated through the Corporate Plan, despite these difficult times, the Council's strategy will be to continue to deliver value for money services and quality services and an affordable council tax level for local residents. During the autumn of 2012 the Council embarked upon a consultation exercise with residents and stakeholders on the scale and type of reductions to services to address the budget gap in 2013/14. In early December 2012 the Mayor presented his proposed revenue budget for 2013/14, together with spending targets for Council services in order to achieve the required budget reduction. These proposals were prepared before the local government grant allocations where announced by central government. The Council's provisional allocation from central government has now been received and the reduction is broadly in line with the Council's expectation.

National Context

The Council faces significant challenges 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. At a strategic level it indicated that Local Government would see a 28% real terms reduction in resources from Central Government over the four year period. This policy has had, and will continue to have, a direct impact upon local authorities including 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.

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.

In addition the coalition Government has introduced a number of significant changes to local government finance which are adding further uncertainty for financial planning. These include the Business Rates retention scheme, the Local Council Tax Reduction Scheme, changes to grant funding and restrictions and incentives to limit council tax increases. All of which are outlined later in the Plan.

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.

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.

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.

5 INCOME

Central Government Grant

The CSR announcement in October 2010 suggested that, over the 4 year period, the level of grant from the Government would fall by some 28% in real terms 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.

The table below provides an estimated position on future funding levels over the next four years. It must be emphasised that due to the uncertainty with respect to government grant reductions in 2014/15 onwards this is an estimated position at this time.

	2013/14	2014/15	2015/16	2016/17
	£'m	£'m	£'m	£'m
Business Rates – 49% share	17.865	18.419	18.879	19.257
Top Up payment	10.398	10.720	10.988	11.208
Revenue Support Grant	42.731	34.996	33.246	31.584
LSSG Grant	0.034	0.034	0.033	0.031
LACSEG Grant (estimate - funding to be announced)	1.296	1.000	0.500	0
Distribution from the Devon Business Rate Retention Pool	0.170	0.175	0.180	0.183
Total "General" Income	**72.494**	**65.344**	**63.826**	**62.263**
% reduction		9.9%	2.3%	2.4%

Table last updated 4th February 2013

For the purposes of this Plan it has been assumed Torbay will have a £10.231m reduction in its core grants 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 revenue support 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.

In 2013/14 Public Health will be transferring to local authorities, this is a commissioned service with a series of contracts with a number of providers.

The service is funded by a grant in excess of £7m. This grant is ring-fenced for at least 2 years, so for the purposes of the Plan has not been included within the overall figures.

The Council will continue to explore all other opportunities for further grant funding building upon opportunities such as Social Investment Bonds, 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.

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 , falling to £2.5m in 2013/14 and £1.7m in 2014/15 – which was reallocated to top up the grant allocations for other local authorities.

Government Grants (Direct and Indirect)

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.

The Council does receive specific grants that are not transferring to the revenue support grant such as Dedicated Schools Grant (where the majority goes directly to schools), Public Health Grant and the Housing Benefit Administration Grant (which is treated as part of the revenue account), and a number of other smaller grants. The DSG will reduce as more schools convert to academies, the housing benefit grant will reduce with the introduction of universal credit and the Public Health Grant is likely to be ring fenced for at least 2 years.

Reductions to grants have been included within the estimated income position which includes the removal of the council tax freeze grant for 2012/13 and the council tax freeze grant for 2013/14. The Early Intervention Grant has fallen by £1.8m in 2013/14. This grant has also been transferred to revenue support grant.

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 funding must be paid to Council’s from the NHS and spent on Adult Social Care and providing health benefits.

The government has assessed the Council’s spend on supporting schools as £2.6m. As schools convert to academies Council Funding will reduce and the balance on this funding will form part of a new grant called the Local Authority Central Spending Equivalent Grant (LACSEG). The LACSEG grant allocations for 2013/14 are due to be announced March 2013.

Income Assumption – Council Tax

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%.

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 Reduction 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.

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. The level of council tax collection in year has remained at 96.5%, when prior year recovery is included the collection rate is higher, 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 the council tax income rate, linked to the number and value of claims, is more uncertain and needs to be kept under review for future years.

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.

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 £1.825m 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 from 2014/15 onwards.

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.

The MTRP makes an assumption that the Council will accept the 2013/14 Council Tax Freeze Grant therefore the council tax increase will be 0%. 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 £0.6m which is part of an ongoing annual reduction in potential Council Tax income of £1.1m.

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	2016/17 Estimate £'000
Council Tax Base	41,587	41,617	41,648	41,677
Council Tax Level (Band D)	£1,261.17	£1,286.39	£1,312.12	£1,338.36
Council Tax Income	52,448	53,536	54,647	55,779

Table last updated 4th February 2013

Council Tax Freeze Grant

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.

The Government extended this for a further year in 2012/13 and accepted by Torbay but this grant was only payable for one year therefore for 2013/14 the Council had to make budget reductions to cover this income shortfall. 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.

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 is payable for two years is equivalent to a 1% increase in council tax.

The Council Tax Freeze Grant for Torbay is estimated to be £0.6m payable in 2013/14 and 2014/15. For the purposes of this Plan it is assumed the Council will accept the grant. 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.

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 £0.6m shortfall in 2015/16 from both the removal of the grant and as part of an ongoing annual reduction in potential Council Tax income of £1.1m.

For planning purposes the MTRP assumes that the Council will increase council tax by 2% in 2014/15 and future years. Which is in the short term below predicted rates of inflation and in the long term equal to the Bank of England target rate for inflation. In addition this is below Central Governments referendum limit for 2013/14.

Business Rate Income and New Homes Bonus

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

As the funding for this distribution is not “new money” but money recycled from reducing Revenue Support grant paid to Councils, it is a clear risk to the Council that unless its rates of growth and therefore “reward” is greater than the funding being withdrawn the Council will have future budget pressures.

Fees and Charges

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.

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.

6. Expenditure Pressures – Base Assumptions

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.

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 1% in each of the following years. 2012/13 was 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.

The Capital Investment Plan includes a target, over the four years of the Plan of £6m of capital receipts. The Plan also includes a potential £20m expenditure on the South Devon Link Road to be funded primarily from prudential borrowing which will be a pressure on future year revenue budgets after the Road is operational.

Local Council Tax Reduction Scheme

Another significant change for 2013/14 was the requirement to introduce a local council tax scheme for residents in receipt of council tax benefit from April 2013. The Council approved a scheme in December 2012 which will result in most council tax benefit claimants having to pay towards their council tax bill. Pensioners are protected and excluded from the scheme.

As part of the scheme the coalition government will reduce the council's funding for this service by 10%. In response to this reduction in financial support, the Council has consulted on the proposed scheme and worked closely with other Devon authorities. As a result of this work all Devon authorities have devised similar schemes.

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 or increases in council tax during the year will be an additional cost pressure for the Council.

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.

Service Pressures

All local authorities are faced with making a number of difficult decisions in the face of some of the largest cuts to local government grant within a generation. 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.

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.

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.

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 reform 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 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 and 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 such as the South Devon Link Road.
    - Any increases to the Carbon Tax.
    - Impact of the actuarial review of the employer's pension contribution – current assumption nil impact will be confirmed autumn 2013.
    - The requirement to set aside resources to replenish reserves for any invest to save initiatives.

Demographics

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.

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

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 of £2.5m per annum but this will be under significant pressure to resource within ongoing efficiencies and changes to service delivery.

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).

7 OTHER

Reserves

There continues to be a considerable amount of attention and debate given to the level of reserves held by local authorities. The Coalition Government have expressed a view that all Council's could be utilising reserves on a temporary basis during this period of austerity.

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.

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.

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 £1.5m in 2013/14.

Treasury Management Strategy

Council approves an annual Treasury Management Strategy. This plan is significantly influenced by the council's approved capital expenditure plan particularly in relation to the timing of spend and the level of prudential borrowing approved that is required to be financed.

The Strategy includes estimates for interest rates which will impact on the Councils' investment income and interest payable budgets. These changes are reflected in the Medium Term Resource Plan.

Changes to Council Functions and Initiatives

There are a number of changes in local government functions that will be included in the Council's financial planning. A number of significant changes are listed below.

Change in Functions	Description	Timing
Public Health	New Function from NHS	April 2013
Social Fund	New Function from DWP	April 2013
Academy Schools	Transfer of schools	April 2011 ongoing
Housing Benefit	Transfer to Universal Credit	October 2013 to March 2017
Council Tax Support Scheme	New scheme replacing Council Tax Benefit	April 2013

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

Initiative	Description	Timing
Waste Reduction	Energy From Waste Scheme	September 2014
Early Intervention	Local Integrated Services Trust	2014/15

Risks

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

There is therefore a risk that the projections for the budget deficit may prove to be under-estimates – primarily due to the number of significant changes to the system for local government finance and the unknown level of cuts expected in future years. There is uncertainty as to the full impact upon the Council of changes in funding arising from the impact of Academy Funding, ~~,~~ 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.

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 the life of the plan

- Impact of the Business Rate Retention Scheme on Council income linked to business rate growth

- Impact of New Homes Bonus grant income linked to housing growth

- Impact of the Council Tax Reduction Scheme on Council income

- The amount of the LACSEG grant the Council will receive following the “topslicing” of Formula Grant in order to transfer funding to academies

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

- On going cost of social care both childrens and adults.

8 BACKGROUND INFORMATION

Local Government Resource Review

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. This has now been passed as legislation.

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

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 or bear the cost of any reductions in business rates. This is a fundamental change from the existing system whereby all business rates collected by local authorities are paid to central government and then redistributed back to local authorities calculated on a needs based formula. Whilst local authorities will receive grant allocations based on their needs linked to a 2012/13 funding baseline in the future it will also be based on how much economic growth can be generated.

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 a share of any additional income above the baseline which provides all local authorities with a clear incentive to encourage business growth. For Torbay as a unitary council without fire responsibilities this share is 49%.

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.

On 18 October 2012, the coalition government announced that it was postponing the next business rates revaluation until 2017 – which was due in 2015. The coalition government's reasoning was as business rates are the third largest 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.

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. It is expected that following the future revaluation of NNDR the NNDR baseline will be reset however this will need to be closely monitored to ensure that this does not adversely affect the Council's NNDR income.

The Scheme

The Business Rates Retention scheme is a fundamental change to the local government finance system and is complex. 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 the Fire Authority
- 49% to be retained by Torbay Council

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.

Top ups and tariffs will automatically increase with RPI 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 income declines.

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 in Devon are all tariff authorities.

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 which has been set at 7.5%. Up to this limit the cost of the declining business rates is shared between the Council and Central Government.

Pooling

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.

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 the ‘top-up’ and ‘tariffs’ would be netted off 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

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 £15m will stay in Devon over a 5 year period resulting in additional income of £1.5m for Torbay over that period.

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.

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.

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. 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.

Impact of the current economic conditions

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

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 a 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.

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.

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%

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.

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.

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'.

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.

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.