April 2017 Update

Medium Term Resource Plan

Contents

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

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

Plan last updated on 13 April 2017

1 Summary

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

Revenue Budget	**2017/18** **£m**	**2018/19** **£m**	**2019/20** **£m**	**2020/21** **£m**
Estimated Sources of Finance (RSG, NHB, NNDR Retention, Council Tax & Collection Fund)	**(110.2)**	**(109.2)**	**(106.2)**	**(108.1)**
Net Expenditure budget Net expenditure base budget brought forward	109.1	110.2	109.2	106.2
In year movements e.g. pressures, investments and funding changes	8.4	6.8	3.0	3.7
Adult Social Care – Council Tax precept	1.7	1.8	0	0
Less service savings/income	(6.7)	0	0	0
Less 2016/17 one off expenditure	(2.3)	0	0	0
Budget Proposals	0	0	0	0
Total Net Expenditure budget	**110.2**	**118.8**	**112.2**	**109.9**
Additional Savings required in year to balance budget	**0**	**(9.6)**	**(6.0)**	**(1.8)**
Total Net expenditure budget after savings	**110.2**	**109.2**	**106.2**	**108.1**
Total Additional Savings to be identified for the period of the Plan 2018/19, 2019/20 and 2020/21				**(17.4)**

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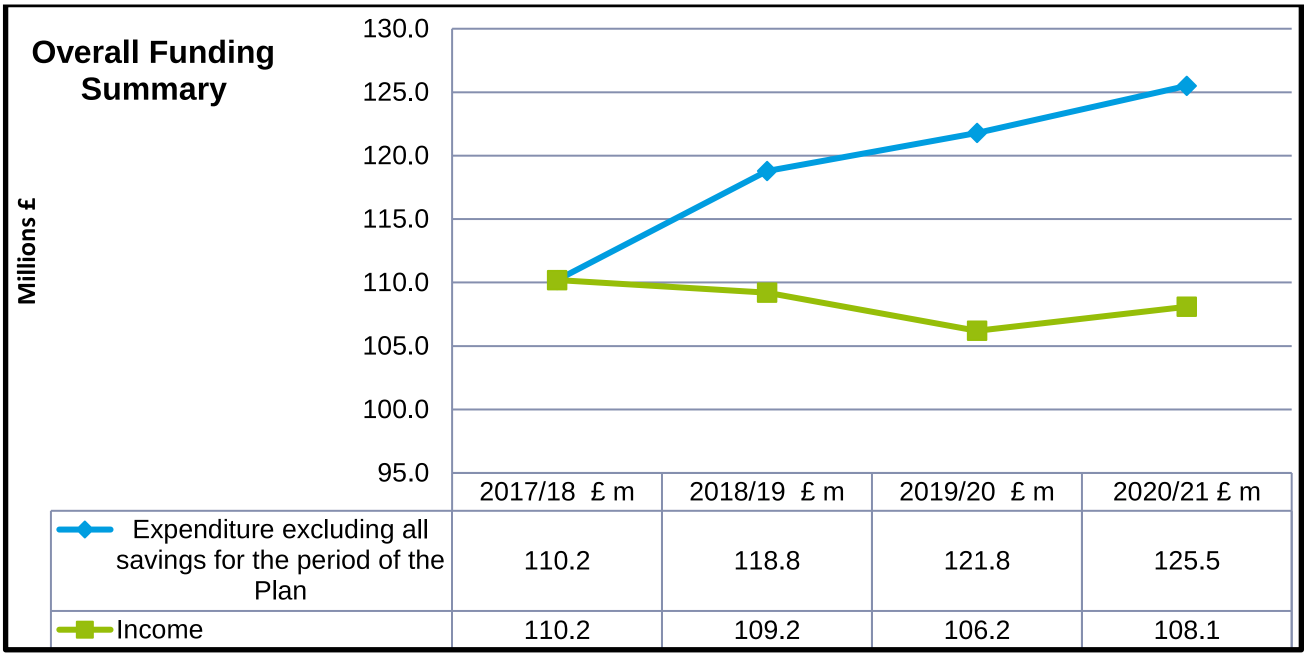

	2017/18 £ m	2018/19 £ m	2019/20 £ m	2020/21 £ m
Expenditure excluding all savings for the period of the Plan	110.2	118.8	121.8	125.5
Income	110.2	109.2	106.2	108.1

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2 Overview

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

The MTRP needs to be considered with its "sister" document the **Council's Efficiency Plan** that was approved by Council on the 22 September 2016 and any **Budget Proposals** including any savings arising from the **Council's Transformation Programme.**

The MTRP 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 £17.4m over three years** between 2018/19 and 2020/21 based upon existing service demands and "normal" budget pressures including inflation, demand pressures and income assumptions. 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.

2020/21 has been included in this Plan however, as this is the first year of the next parliament, there are no funding announcements made for this year therefore a "stand still" funding position has been assumed. The funding is as per the "four year funding" settlement however if HM Treasury requires further savings from local government then the funding gap could increase.

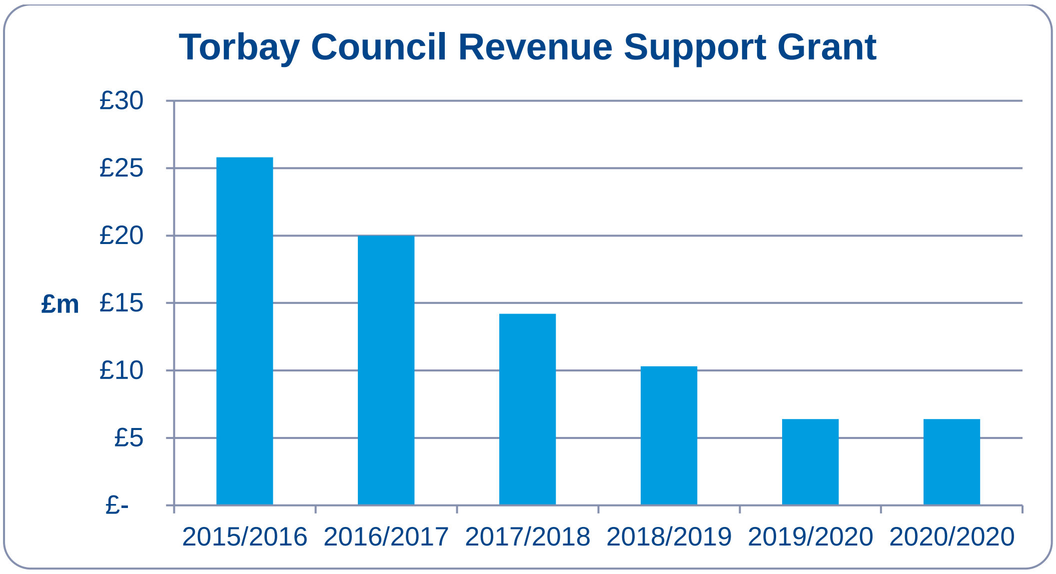
The budget challenges for future years where the Council's Revenue Support Grant is to be cut at a similar level to recent years cannot be overstated. These are significant budget reductions and, with about 65% of the Council's net budget allocated to social care, the challenge to achieve a robust budget that provides the statutory services the Council must provide is immense.

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

The Mayor and senior officers will continue to work on options for these expected budget reductions and will issue these for consultation and debate when appropriate.

The **Local Government Finance Settlement** for 2017/18 was finalised in February 2017. This settlement combined with a number of related announcements, such as a review of funding allocations between councils (expected to be from 2019/20), will lead to a very challenging and uncertain period for local government. Torbay Council (at is meeting in September 2016) agreed its Efficiency Plan and accepted the 2016/17 Revenue Support Grant and the grant for the following three years. This should allow the Council to be able to plan with some certainty as Revenue Support Grant (RSG) reduces.

For Torbay its Revenue Support Grant (RSG) reduces from £27m in 2015/16 to £6m in 2019/20. Nationally this is a £6 billion or 56% reduction in DCLG funding for local government.



The Spring Budget was announced by the Chancellor in March 2017. The requirement for a further £3.5b of savings for 2019/20 was re confirmed but will be subject to an Efficiency Review to identify the options for reducing spend. The impact on local government is currently unknown.

The Chancellor did announce (temporary) support for adult social care of £2b to be spread over three financial years on a reducing balance. Torbay's share of this funding is £3.8m, £2.4m and £1.2m over the next three years. The DCLG have confirmed that this funding is to fund adult social care however expenditure is to be agreed locally in consultation with NHS partners. For this plan it is assumed that any of this additional funding will be spent exclusively on adult social care.

The Efficiency Plan (**www.torbay.gov.uk/efficiency-plan**) summarises the Council's priorities and outlines, at a high level, the actions the Council are taking to both improve its services and make the required reductions in spend to achieve a balanced budget over the next few years.

In the Efficiency Plan (September 2016) the forecast gap for 2018/19 and 2019/20 was £11.6m. This is now projected to be £15.7m. Changes include:

Adult social care: costs post the Risk Share Agreement	£1.2m
1% adult social care Council Tax brought forward	£0.6m
Highways 17/18 saving was "one off"	£0.3m
General Fund Reserve	£0.5m
Rising inflation	£0.7m
New Homes Bonus Grant – impact of threshold	£0.4m
Education higher need block 19/20	£0.5m

Council approved the budget for 2017/18 (**www.torbay.gov.uk/budget-201718**) on 23 February 2017. These proposals are included within the financial tables in this report.

As part of the budget proposals there is a useful **Budget Proposals Summary** which focused on the key budget issues. This is available at **www.torbay.gov.uk/budget-proposals-summary-1718.pdf.**

The Government also confirmed its intention to allow **councils to keep 100%** (or 98% for Torbay, 2% Fire) **of NNDR income "by the end of parliament**". The Government have now published a Local Government Finance White Paper that will establish the legal basis for the changes while continuing to consult on the design of the scheme. **A consultation was issued in February 2017.**

In this consultation DCLG are proposing a 2019/20 start date for the scheme. When the change in funding happens it will be fiscally neutral with councils keeping 100% of NNDR income with RSG removed completely, other grant funding being reduced and more responsibilities being passed to councils. The grants being suggested for reduction that will impact on Torbay Council are the Public Health Grant and two transport capital grants (Integrated Transport and Structural Maintenance). The consultation also refers to a five year period between each “partial reset” of NNDR growth to keep a balance between councils’ ability to raise funds (via NNDR) and their need for funding based on demand for services.

Although initiatives such as a four year settlement are broadly welcomed there are a number of **significant uncertainties** as much detail has not yet been announced and will be subject to consultation. This will inevitably lead to revision of the MTRP and Transformation Plans as more clarity emerges over the next few years.

Funding uncertainties include:

- DCLG have announced a review of the allocation of resources between councils from 2019/20. If Torbay Council’s relative “need” has reduced since the last review compared to other councils then the Council is likely to lose funding.

- Changes to adult social care funding to the Improved Better Care Fund. It is unclear how this will be allocated but it should result in more funding for Torbay.

- Can DCLG maintain funding levels if HM Treasury request greater austerity in future years?

- DCLG have only spoken about a 4 year settlement for Revenue Support Grant, but significantly not applied this to other Council grant funding.

- The method of restating Councils funding on the move to 100% NNDR retention. How will the baseline for the change be set and calculated is subject to consultation.

- Impact of future national changes to NNDR to Council income such as changing reliefs.

- The move to change NNDR increases from RPI to the (usually) lower CPI from 2019/20 will reduce income if not funded by DCLG

- The risk to council NNDR income from of the volume and value of NNDR appeals and the future income levels which are dependent on economic conditions and the strength of the high street against the rise of on line shopping.

- Reducing the link between funding linked to “need” to funding based on taxbase growth (both housing and NNDR) does not recognise councils ability to raise tax income which will lead to funding inequalities.

- No funding announcements for 2020/21

Based on the proposed change by the end of this parliament it is likely that Torbay Council will be primarily reliant on Council Tax and NNDR income for its funding. This move does present risks to the Council due to the potential variations in income. However, it provides a very **strong incentive for the Council to plan for and achieve taxbase growth** in both these areas, subject to the five year partial reset of NNDR income.

The Council in 2015/16 had two **key inspections**. The Ofsted inspection judged Children's Services as inadequate. However in the report the Inspector noted that Children's Services was well resourced. Subsequent feedback from Ofsted has been positive with a recommendation around the future management of the service expected during 2017. The other inspection was from the Local Government Association which looked at both financial resilience and governance. In relation to financial resilience, the report concluded that Torbay Council's financial position was no worse than a number of other councils but faced significant financial challenges. **The team concluded that Torbay Council was viable in the future if it made tough financial decisions at pace**. As a result the Council established a Transformation Programme (and an associated support team) in 2016 to help deliver the financial reductions required.

The LGA inspection was followed up in September 2016 and the LGA also carried out a specific financial review. This was complemented by the use of CIPFA in a Financial Resilience Review. All three reports were reported to Council in February 2017. A key message from these reviews was the need to implement transformational projects at pace to realise the savings required in the short term. The CIPFA review also emphasised the need to focus on cost reductions on the Council's high value budgets, in particular both adults and children social care budgets and on income generation.

Councils are now able to raise Council Tax by 1.99%. Any Council Tax rises of 2% or over would be subject to a local referendum. In addition, Councils like Torbay with social care responsibilities, are now able to raise Council Tax specifically for social care by 6% over three years from 2017/18. Torbay Council approved this option of 3% in 2017/18 therefore has 3% flexibility for the next two years. For planning purposes this Plan **assumes a Council Tax increase of 1.99% per annum for each year of the Plan plus a use of the social care option, i.e. 3% in 2018/19 and 0% in 2019/20. This is an officer assumption and any rise would need to be approved by Council.** If Council approved a lower Council Tax rise then this would increase the funding gap. As a guide each 1% increase in Council Tax would generate an additional £0.6m of income each year.

The above are cash reductions in funding therefore any spending pressures (e.g. increased demand for social care), inflationary pressures or a reduction in other grants or income will be an additional pressure to be funded from budget reductions or **transformation projects.**

There is a continuing financial impact of **demand pressures within Children's Services** due to caseload and complexity of cases. Continuing overspends of the levels of recent years is unsustainable and the Council has made budget reductions to other services, above and beyond those required by reductions on central government funding to continue to provide this level of service. The service spends significantly more than its statistical neighbours directly linked to the number of looked after children and a reduction in spend to be closer to this level is fundamental to the Council achieving a balanced budget over the next few years. Based on current spending levels the achievability of the Children's Services Recovery Plan (October 2014 version) was reviewed with a new Children's Services Medium Term Financial Strategy approved by Council in February 2017.

Adult Social Care is a significant financial uncertainly. This arises from two issues. Firstly the Council's current agreement is for an integrated health and social care service run by the Integrated Care Organisation (ICO) with Council exposed to a 9% risk share of any overspend on the total ICO financial position. The ICO is predicting an overspend in excess of £20m in 2016/17 with a significantly worse position for 2017/18. In addition the ICO has given twelve month notice on the current Risk Share Agreement which expires end of December 2017. At this stage the Council does not have a contract or a final cost for adult social care provision from January 2018.

The changes in the Council's funding arrangements combined with demand and inflationary pressures has required the Council to make budget reductions of approximately £69 million over the past seven years with £8m planned for in 2018/19 as shown in the table below.

Year		Value £m	Cumulative £m
2011/12		9	9
2012/13		9	18
2013/14		9	27
2014/15		12	39
2015/16		11	50
2016/17		12	62
2017/18		7	69
2018/19	Est.	10	79
2019/20	Est.	6	85
2020/21	Est.	2	87

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The Council will continue to plan for other Government changes in funding, including:

- The loss of funding from the continuing conversion of Council-maintained schools to Academies
- The ongoing impact of welfare changes in particular the replacement of a number of benefits, such as Housing Benefit (that the Council manages) with Universal Credit. (Torbay is in the fourth tranche of rollout from January 2016.)
- Any changes arising from the devolution agenda in Devon and Somerset.
- Any changes arising from the Devon-wide NHS Sustainability and Transformation Plan (STP) which could include aspects of social care and public health
- Any opportunities from the (proposed) 100% NNDR retention scheme including any incentives from pooling NNDR income with other councils and/or the development of Local Growth Zones with other councils.

The Council's Capital Plan, Capital Strategy, Asset Management Plan and the Treasury Management Strategy are also key financial planning documents and should be read in conjunction with this Plan. These documents are available on the Council's website at **www.torbay.gov.uk/budget**

3 Income

Central Government "General" Funding

The **Local Government Finance Settlement** for 2017/18 was finalised in February 2017. This settlement combined with a number of related announcements, such as a review of funding allocations between councils (expected to be from 2019/20), will lead to a very challenging and uncertain period for local government. Torbay Council (at is meeting in September 2016) agreed its Efficiency Plan and accepted the 2016/17 Revenue Support Grant and the grant for the following three years. This should allow the Council to be able to plan with some certainty as Revenue Support Grant (RSG) reduces.

For Torbay over the four years of the settlement its **RSG reduces from £27m in 2015/16 to £6m in 2019/20.** Nationally this is a £6bn or 56% reduction in DCLG funding for local government. The Council's assessment of need for grant was "frozen" at a baseline for 2013. For Torbay its baseline was set in 2013/14 at £71m of which RSG was £43m. RSG will reduce to £6m by 2019/20, a £37m reduction.

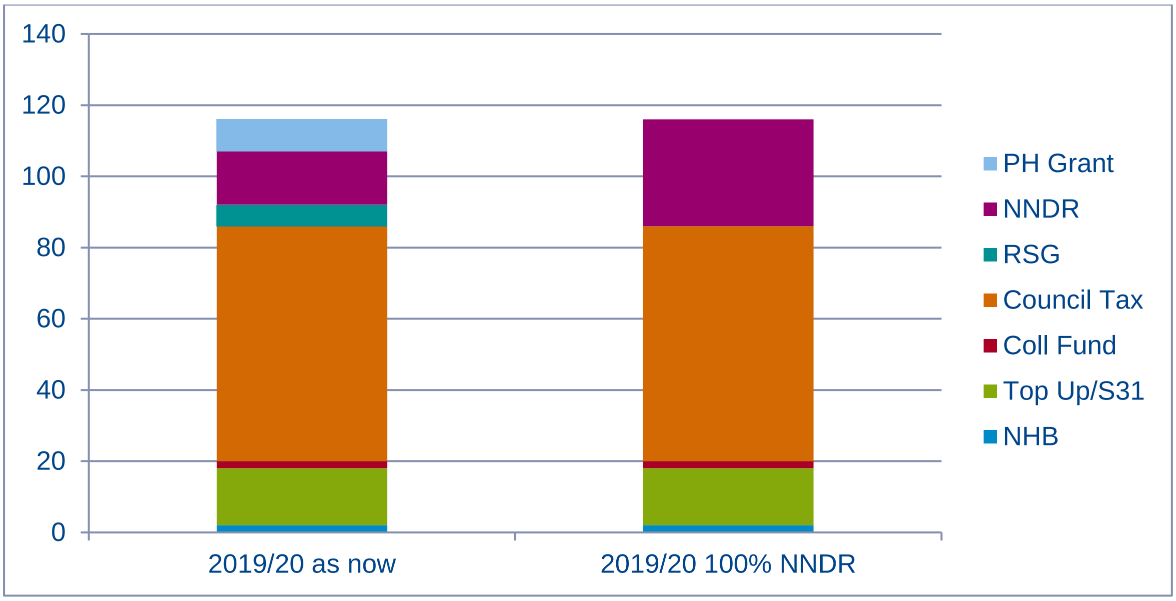
This means that there is no additional funding if the Council's "need" for funding increases; e.g. the demand for social care. The Council's funding in recent years has been based on simple percentage reductions linked to the baseline. Unfortunately the baseline also froze the £4m that the Council "lost" annually in the damping of grant within the old funding assessment. DCLG have now announced a review of the allocation of resources between councils likely to be applicable from 2019/20. If Torbay's relative "need" has reduced since the last review compared to other councils then the Council is likely to lose funding. This may involve the (partial) resetting of funding/NNDR baselines every five years to enable the redistribution of funding between councils.

With the move to a 100% business rate retention scheme and the removal of the RSG and other grants there is a (further) clear shift that Council funding is now significantly based on its economic growth (NNDR and homes) and not needs based. So in simple terms if there is no growth, there is no increase in funding.

To reflect the uncertainty over the impact of the new funding allocation and the 100% NNDR retention scheme on the Council a contingency to mitigate potential funding variation has been included in 2019/20 (assuming the new scheme is operational from that year).

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 2019/20 onwards, the impact of the Business Rate Retention Scheme where income can fluctuate and any future funding changes, this is an estimated position at a point in time. The table below summaries all the income information identified in this section of the Plan:

	2017/18 £'000	2018/19 Estimate £'000	NEW 100% NNDR SCHEME	2019/20 Estimate £'000	2020/21 Estimate £'000	*2019/20 Post 100% NNDR £'000*
Revenue Support Grant	14.2	10.3		6.4	6.4	*0*
New Funding Formula	0	0		(1.0)	(1.0)	*(1.0)*
New Homes Bonus Grant	2.3	1.5		1.2	0.8	*1.2*
Education Services Grant	0.1	0		0	0	*0*
Business Rate Retention – Council Share	14.9	15.3		15.5	15.8	*31.0*
NNDR Top Up Grant	14.0	14.4		14.6	14.8	*14.6*
Section 31 – New Burdens Grant	1.8	1.9		1.9	1.9	*1.9*
Council Tax	60.7	64.1		65.9	67.7	*65.9*
Collection Fund Surplus/(Deficit)	2.2	1.7		1.7	1.7	*1.7*
Total	**110.2**	**109.2**		**106.2**	**108.1**	*115.3*
Less reductions in service grants						*(9.1)*
						106.2



Service Specific Government Grants

In 2013/14 **Public Health** transferred to local authorities, this is primarily a commissioned service with a series of contracts with a number of providers. The service is funded by a 2017/18 grant in excess of £9.5m. This grant is ring-fenced until at least 2017/18 so for the purposes of the Plan has not been included within the overall figures. This grant is to reduce by 2.5% per annum each year. It is expected that this grant will be abolished as part of the "fiscally neutral" move to 100% NNDR retention scheme in 2019/20.

The Council does receive specific grants such as **Dedicated Schools Grant (DSG),** where the majority goes directly to schools 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.

New Homes Bonus Grant is an incentive driven grant linked to housing growth. However 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 withdrawn, the Council will have future budget pressures. The grant has been reformed from 2017/18, reducing the financial incentive, and now reaches a maximum level after four years from 2018/19 when it will be based on a rolling four year data set of new homes. In addition a growth threshold has been introduced so the Grant will only be paid on growth in excess of 0.4% each year which will further reduce the grant as each new year in the rolling four years period will be lower (as subject to the threshold) compared to each old year.

Part of the national reduction in New Homes Bonus is to part fund the new **Improved Better Care Fund** for adult social care. DCLG have projected that the grant will be £0.6m in 2017/18 to Torbay rising to £6.6m in 2019/20. For the purposes of this Plan it has been assumed that this entire grant is allocated to fund demand and cost pressures, including inflation, within adult social care. In addition the **Chancellor in the 2017 Spring Budget did announce (temporary) support for adult social care of £2b to be spread over three financial years** on a reducing balance. Torbay's share of this funding is £3.8m, £2.4m and £1.2m over the next three years. For this plan it is assumed that any of this additional funding will be spent exclusively on adult social care.

With the introduction of the Council Tax Support Scheme in 2013/14; the Council received a grant of £12m equal to 90% of the costs of the old Council Tax Benefit Scheme. In 2013/14 this grant was transferred to the revenue support grant. The Revenue Support Grant has been subject to significant annual reductions and will cease completely on the move to 100% NNDR retention.

During 2017/18 the Department for Education will have completely withdrawn the former Education Services Grant. Any residual costs of the education service will now be funded from a (formula driven) allocation from the DSG or from Council overall funding.

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

Income Assumption – Council Tax

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

For 2017/18 there is an estimated increase in the tax base from changes in number of dwellings, number of CTSS claims and single person discounts and the in-year collection rate was assumed to be 96.0%. In terms of growth in the tax base, a 2% increase has been calculated for 2017/18 (also linked to changes in the Council Tax Support Scheme) with an estimated increase in the base from housing growth of 0.75% across all other years of the plan (2018/19 – 2020/21).

Where councils have been able to collect outstanding Council Tax in a following year(s), this income falls into the Collection Fund and is applied as part of the Council's overall income in the financial year following collection. For 2017/18 an estimate of £2.1m and future years £1.750m for each year (2018/19 -2020/21) will be applied from the fund to the revenue budget; i.e. the collection fund surplus.

In 2017/18 the Council set a rate of £1,376.93 Council Tax per Band D property a rise of 4.99% which was a 1.99% rise for council functions and 3% for adult social care.

In the settlement DCLG allowed councils with social care responsibilities to increase (each year) their council tax income by 3% per annum, subject to the increase being allocated to support adult social care subject to the total rise over three years being a maximum of 6%. This rise is to be in additional the usual permitted increase to the standard referendum limit. The Government announces on an annual basis the Council Tax rise referendum threshold. The level set for 2017/18 for councils with social care was 5% or over. This means if a local authority wanted in 2017/18 to raise council tax by 5% or more, local residents would have the right to keep council tax bills down through a binding referendum veto.

For planning purposes the officer assumption within the MTRP is that the Council will increase Council Tax to the "council" referendum threshold (expected to be 1.99%) in 2018/19 and future years. For adult social care a rise of 3% for 2018/19 and 0% in 2019/20 has been assumed by officers. The actual tax rise is approved by Council each year.

The assumed council tax levels and tax base is shown in the table below.

	2017/18	**2018/19 Estimate**	**2019/20 Estimate**	**2020/21 Estimate**
Council Tax Base	44,049	44,379	44,712	45,048
Council Tax Level (Band D)	£1,377	£1,446	£1,475	£1,504
Council Tax Rise - %	4.99%	4.99%	1.99%	1.99%
Council Tax Income	£60.7m	£64.1m	£65.9m	£67.7m

Table last updated 13th April 2017

In 2017/18, Torbay had the lowest Band D Council Tax in Devon at £1,634.78 including the Adult Social Care, Fire and Police precepts. A summary of other local Council's Band D rates are as follows:

	Torbay (Unitary council)	Plymouth (Unitary council)	Exeter (City Council)	South Hams (District Council)	Teign – bridge (District Council)
District Council	-	-	145.05	155.42	160.17
Devon County (including Adult Social Care precept)	-	-	1,267.92	1,267.92	1,267.92
Total including Adult Social Care Precept	**1,376.93**	**1,407.47**	**1,412.97**	**1,423.34**	**1,428.09**
Fire & Police	257.83	257.83	257.83	257.83	257.83
Band D (excluding parish precepts)	**1,634.78**	**1,665.30 +1.9%**	**1,670.80 +2.2%**	**1,681.17 +2.8%**	**1,685.92 +3.1%**

Table last updated 2 March 2017

Business Rate (NNDR) Income

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

The multiplier is linked to September RPI which is likely to be an increase of around 2%. From 2019/20 NNDR rises will be linked to the usually lower CPI which will reduce council income compared to RPI.

The Council is liable for 49% of the cost of any revaluation appeals. The value of this liability for back dated appeals will be the result of any appeals awarded by the Valuation office. The Council's latest view is that this appeals liability is around £2.5m.

The government has confirmed its intention to allow **councils to keep 100% of NNDR income by 2019/20**. When the change in funding happens it will be fiscally neutral with RSG removed completely, other grant funding being reduced and more responsibilities being passed to Councils. Based on NNDR pilot areas (such as Cornwall Council) the grant funding that will be withdrawn to balance the higher level of NNDR income are the Public Health Grant and two transport capital grants.

DCLG have commenced extensive consultation on how the NNDR and funding changes are to be implemented but there is still great uncertainty. To reflect this uncertainty from both, the review of funding and the introduction of 100% NNDR retention, a funding contingency of £1m has been included at this stage in the budget build for 2019/20.

In January 2017 the Government have introduced a draft Local Government Finance Act that will establish the legal framework for the future NNDR changes. **In February 2017 DCLG have released their latest consultation on NNDR** which is now forming the outline design for the new scheme. Features of scheme in consultation include:

- Introduction of scheme from 2019/20
- Funding formula based on “Relative Need” changes from 2019/20
- NNDR increases/decreases kept/funded by Councils in a five year period
- **Every five years a “partial reset” of NNDR growth** with NNDR income from councils with growth transferred to councils with need subject to an element of growth being kept.
- Councils with negative growth will be protected.
- Existing NNDR pool and levy calculations to go
- New, as yet unidentified, incentives for NNDR pools (with other Councils)
- New, as yet unidentified, incentives for **Local Growth Zones** (with other Councils)

The changes in rateable values for the 2017 revaluation were released in September 2016. For Torbay this was a net reduction in rateable values by 6% or £6m. Within the net decrease there were a number of premises including a number of Council properties that had an increase in rateable value. This was the biggest decrease in Devon. DCLG have stated that the changes in values will be "fiscally neutral" with Council's like Torbay being compensated to offset the reduction in its 49% share of the reduction in NNDR income. The exact calculation and impact is still unclear with the DCLG using a "proxy" calculation for the 2017/18 NNDR Top Up grant. This will be revised for 2016/17 actual NNDR income.

The Government’s figures are based on their assumed NNDR baseline for Torbay. The actual NNDR income for Torbay will depend on actual changes in NNDR income – up or down – from that baseline. Current indications are that the Council’s NNDR income is now stabilising after a period of reduced income although NNDR appeals are continuing to have a negative impact on NNDR income. There is no indication of real growth therefore a “stable” position has been reflected over the period of the plan; however the level and value of appeals is continuing to be a major uncertainty.

Where councils have been able to collect outstanding NNDR in a following year(s) and/or NNDR income was lower than expected, this surplus/deficit falls into the Collection Fund and is applied as part of the Council’s overall income/cost in the financial year following collection. For future years no surplus or deficit has been forecast.

The Council will remain part of the Devon-wide Business Rate pool which has a (cumulative) financial benefit of approximately £0.2m per annum to the Council. Until the impact of the 2017 revaluation is calculated for the Devon pool no further increases in this income have been projected. (Note under 100% NNDR this incentive is likely to be removed in 2019/20 which will result in a loss of income for the Council).

If central government changes any aspect of the NNDR system, by changing reliefs or capping inflationary increases, then the impact of these changes on Council NNDR income should be met by central government providing a “S31 New Burdens” Grant. As Government changes these reliefs etc this will change the split of income between NNDR and grant, which could distort year on year comparisons.

Fees and Charges

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

This Plan assumes an annual inflationary increase of 3% each year. However, Service Managers will need to consider all options for income generation in the context of the challenging financial period facing the Council whilst taking into account issues of subsidies to encourage usage and the impact of charges upon residents and their ability to pay in these difficult economic times.

A number of the Council's Transformation Projects have the objective of increasing Council income.

4 Expenditure

The 2017/18 budget approved by Council in February 2017 provides the base position of the financial strategy. To some extent the estimation of expenditure pressures facing the Council are assessable. The starting point is clearly the 2017/18 base budget from which projections can be made using known or estimated data and the assumption that the services provided in that figure will continue at the same level and performance. In addition to this there are certain key assumptions which have been applied and these are:

(a) Pay inflation. An assumption of a 1% rise is made for 2018/19 for staff in line with Government expectation followed by rises of 1% in each of the following years.

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

(c) General inflation. Inflation is a routine and unavoidable cost pressure for Torbay and is part of the Council's budgetary process. A unique inflationary factor is applied to over 40 individual items of expenditure where the cost changes are highly likely such as contractual inflation and for energy costs such as electricity and gas. This is the net amount after applying inflation to both expenditure and income. This cost is likely to increase if, as forecast, inflation rates increase in future years. The Council has already started to see higher inflation on some expenditure types.

(d) Revenue impact of Council decisions. Where the Council has taken a decision that will impact on future revenue budgets this is included (such as funding CCTV, infrastructure works and IT from prudential borrowing as part of Capital Plan).

(e) The next actuarial review of the employer's pension contribution is applicable from April 2020.

(f) Introduction by Central Government of a National Living Wage from April 2016 of £7.20 per hour (an increase from the national minimum wage of £6.50 per hour) that will rise to a minimum of £9.00 per hour by 2020 and potently higher after that date. This will impact on Council staff and on Council suppliers, in particular Care Home providers, where in some cases the extra costs will be borne by the Council.

(g) The current financial pressures in children social care and reflecting the current 2016/17 forecast financial position is putting the Council's reserves under strain. The Chief Finance Officer has recommended that from 2018/19 and future years a contingency for in year pressures is included in its revenue budget to enable the Comprehensive Spending Review reserve balance to be built up to a balance of £2m.

(h) Linked to the financial pressures facing the Council the Chief Finance Officer has recommended that from 2018/19 and future years an allocation to increase the Council's general fund balance is included in its revenue budget to enable the Comprehensive Spending Review reserve balance to be built up to a balance equal to 5% of its net revenue budget.

Service Expenditure Pressures

As well as the anticipated reduction in funding, the Council's budget is also under pressure from the other direction with a continuing increase in the number of vulnerable people accessing Council services, notably within Adult Social Care and Children's services. Information on the Council's population and other demographic information are available on the Council website.
http://www.southdevonandtorbay.info/

Torbay has a **higher-than-average elderly population** and it is expected that this will grow significantly over the next twenty years. In addition to the pressure on Adult Social Care there will also be general growth in population. It is anticipated that the local population will grow by over 0.75%, (450 households), per annum with a consequent pressure on services (e.g. housing, benefits, education, community facilities, and transport).

Provision has been made in the plan for 2018/19 onwards for demand from both growth and changes in the local population of £0.5m (e.g. social care) and from infrastructure demographic growth and demand pressures linked to more housing infrastructures of £0.5m (e.g. waste collection, highway maintenance). These exclude adult social care pressures which are assume to be met from the Improved Better Care Fund allocations and any Adult Social Care Council Tax “precept” which has to be spent on adult social care services.

There are short term risks to achieving the approved budget reductions for services. The budget reductions identified for 2017/18 are challenging for all services and there is an underlying risk that these will not be fully achieved.

There is a continuing financial impact of service pressures within **Children’s Services** due to caseload and complexity of cases. (As at October 2016 there was 282 children looked after and 157 child protection plans). To reflect this ongoing pressure additional funds were included in the past three year budgets for safeguarding pressures. The service spends significantly above its statistical neighbours which are directly linked to the higher than average number of childcare cases.

However, to mitigate this service pressure, a budget recovery plan for Children’s Services was approved by Council in October 2014. This recommended the use of £3.4m of reserves to support Children’s Services in 2015/16 and 2016/17 before, based on the Plan, the service started to underspend in 2017/18 when it would be in a position to repay the reserves used. During 2016/17 it became clear through monitoring that the recovery plan was not achieving the planned savings. The new Director of Children’s Services has now prepared a Children’s Service Medium Term Financial Strategy and this was approved by Council in February 2017.

Following the Council’s Ofsted judgment as inadequate in 2016 the Council has had support from DFE and a commissioner Council (Hampshire). In 2017 the Council will receive a recommendation for the future management of the service for children social care. This could result on the service being outsourced however this will be confirmed during 2017. At this stage no additional costs or savings have been assumed over the next three years.

Within the Council’s **Education Service** there is a budget pressure arsing from the new schools funding arrangements from 2019/20. This directly impacts on the funding of the increasing costs of children with higher education needs. This cost may, in part, become a Council pressure therefore £0.5m has been included as a budget pressure in 2019/20.

Within **Adult Social Care** there is currently the ongoing uncertainty over a judicial review on Care Home Fees. This is not expected to be fully resolved until June 2017.

In addition for Adult Social Care the Council is now part of a risk share with the Foundation Trust (ICO) and the CCG with the council bearing a 9% risk share of the total financial position of the Foundation Trust. This exposes the Council to risk linked to health pressures/spend/funding in the Torbay and South Devon area. The ICO is struggling to achieve a balance budget and is projecting an overspend in 2016/17 of over £20 million (Council 9% cost share up to £2m). A deficit at a significantly higher level is currently projected for 2017/18 unless savings can be identified and implemented.

As a new arrangement with all three partners having their own demand and funding pressures the partnership is still at an early stage. **The ICO have however in December 2016 given 12 months notice to leave the current Risk Share Agreement**. At this stage the Council does not have a contract for adult social care, and a cost of that service from January 2018. To reflect this significant uncertainty a sum of £1.2m has been added from 2018/19 which will supplement the contingency established in the 2017/18 budget for this service.

In addition in 2018/19 the one off social care grant of £0.8m in 2017/18 is withdrawn and as the Council increased its council tax by 3% in 2017/18 it therefore has 1% less flexibility for future years.

The impact of the living wage is particularly significant in this service. The MTRP assumes that the potential additional funding for adult social care in the Improved Better Care Fund in future years will be allocated to fund pressures within adult social care including demand changes.

The Council has in the past seen a reduction in its income levels in prior years linked to the economy such as planning income. These pressures are expected to continue to stabilise in the short term however if the state of the economy declines as forecast by some commentators there could be a reversal of the trend in the medium term. It is expected that inflation will rise in future years and some increases, such as utilities, are already being realised.

The Council has an increasing backlog of repairs and maintenance on its assets in particular property and transport infrastructure assets. The value of the estimated backlog on both these asset types (in 2015) was £22m and £11m.

Changes to Council Functions and Initiatives

There are a number of changes in local government functions that will be included in the Council's financial planning. A number of significant changes are listed below. Some of these have already come into effect but will continue to impact on 2018/19 and future year budget setting process.

Change in Functions	Description	Timing
Academy Schools	Transfer of schools	April 2011, ongoing.
Housing Benefit	Transfer to Universal Credit	Council in "Fourth Tranche" – Ongoing from January 2016

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
Youth Trust	New body to run Youth Services	2017/18
Children's Social Care	Transfer of childrens social care function to new provider or new management	2018/19?
Adult Social Care	Review of Council options for Adult Social Care after ICO notice given on Risk Share Agreement	2017/18
Devolution of function from Central Government	The Council with other partners within the Local Enterprise Partnership (LEP) have submitted expressions of interest to central government.	To be confirmed
Building Control	Torbay to join Devon Building Control partnership	2017/18
Spatial Planning	Shared Service with Plymouth City Council	2018/19
Trading Standards	Torbay to transfer service and staff to Devon County Council	2017/18
Library Services	Expressions of Interest for alternative operation of service	2018/19
Transformation Programme	A programme of initiatives to help deliver the future year savings required	Ongoing
Housing Company	Council approved creation of two subsidiary companies to build/ sell and rent housing	2017/18
New Council group structure	Council approved creation of new holding subsidiary company and tax group for all Council subsidiary companies	2017/18
Investment Fund	Council approved £50m for the purchase of investment properties with a benefit tot he Torbay area	Ongoing
New 100% NNDR retention scheme	Council to review options for incentives under new scheme design.	Ongoing

5 Reserves and Risk

Reserves

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

The Council annually reviews and revises the level and appropriateness of the reserves being held following recommendations from the Chief Finance Officer taken in the light of the requirements of the Local Government Act 2003 and CIPFA guidance. It is essential that reserves are sufficient to meet future demands and commitments and to ensure the level of reserves takes into account the current and future risks faced by the Council. Where reserves are reduced and released these can only be used to fund one off initiatives and not ongoing commitments. The 2017/18 Review of Reserves report was approved by Council in February 2017

The main pressures on reserves are:

- Financing any future year overspends in particular in social care
- Financing any 2014/15, 2015/16 and 2016/17 cost implications of the Judicial Review for Care Homes Fees
- Financing the costs of reducing budgets, primarily the costs of staff reductions and any set up costs for revised service arrangements
- Mitigating annual volatility in income streams especially from NNDR

These risks are significant and the Council needs to ensure it has an appropriate level of reserves. The current financial pressures in children social care and reflecting the current 2016/17 forecast financial position has put the Council's reserves under strain.

Council approved as part of the 2017/18 Review of Reserves that for 2018/19 and future years £2m is included in its revenue budget to ensure reserves that are not earmarked are maintained at a prudent level as a contingency for in year pressures. As a result the MTFP includes that from 2018/19 and future years the contribution to the Comprehensive Spending Review reserve is increased by £1m per annum to maintain a balance of £2m by 2019/20.

In addition, linked to peer feedback, the Council's **general fund reserve is identified as low.** As a result the MTRP includes £0.25m per annum to increase the balance to 5% of the Council's net revenue budget. This level was proposed in the 2017/18 Review of Reserves, however subsequently amended by Council.

Risks

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

There is therefore a risk that the projections for the budget deficit may prove to be under-estimates – primarily due to the number of significant changes to the system for local government both from the review of the funding allocation between Councils and the introduction of a 100% NNDR retention scheme. There is also uncertainty as to the full impact upon the Council of changes in funding arising from the impact of Academy Funding and any changes to the other grants. To mitigate this risk, the MTRP will be updated as appropriate to take account of changing circumstances and new intelligence.

It should be noted that from October 2015 with the formation of the Integrated Care organisation the Council's risk exposure significantly changed. From October 2015 the Council had a 9% risk of the total financial position of the ICO including health and social care budgets. The combined ICO budget is over £400m. The ICO have however in December 2016 given 12 months notice to leave the current Risk Share Agreement. At this stage the Council does not have a contract for adult social care, and a cost of that service, from January 2018.

In addition to the significant funding uncertainties listed in the overview section of this plan in particular the funding review and impact of 100% NNDR retention, other significant financial planning risks that will affect the projections are likely to be:

- Inflation runs at a much higher rate than the rates that have been assumed, with no sign of interest rates rising to provide an offsetting income stream

- Income projections built into the budget may not be achievable due to factors outside of the council's control e.g. a worsening economic outlook, further reduction in investment yields.

- Ongoing cost of social care both Childrens and Adults.

- Impact of major changes in Adult Social Care such as Care Act implementation and Better Care Fund.

- **Achievement of the Council's transformation projects in both their timing and income target**

- Potential revenue costs of major capital schemes and the risk of overspends on major capital projects.

- **Risk of achievement of income targets on major capital investment projects, in particular those funded from prudential borrowing where there is a known additional MRP and interest cost.**

- Risk of higher than anticipated borrowing costs from rises in rate.

- **Achievement of 2018/19 and future year budget savings**

- **Final financial impact of judicial review on Care Home fees**

- **Financial Performance of the Integrated Care organisation and the Council's 9% risk share.**

- 2019 Pension actuarial Review

- Collection fund balances – collection of NNDR and Council Tax

- Risk of exposure of any major legal claims against the Council

- Impact of the Devon-wide NHS Sustainability and Transformation Plan on Torbay

- **Further funding reductions in excess of four year settlement**

Appendix 1 – Timetable

The key dates in relation to the Council's 2018/19 budget setting process are:

Revenue Budget Setting Process		Timeline
2018/19 & 2019/20 Budget Development	Mayor & Chief Executive	Summer 2017 – December 2017
2018/19 Mayor's Budget Proposals	Mayor	October/November 2017
2018/19 Budget Proposals Consultation	Mayor	November and December 2017
2018/19 Finance Background Reports available	Overview & Scrutiny Board	November 2017 for six weeks
Local Government Finance Settlement	Department of Communities and Local Government	December 2017
2018/19 Budget Approved	Council	February 2018
2018/19 Council Tax Set	Council	February 2018
2018/19 Budget Digest published with MTRP update	Chief Finance Officer	March 2018
2019/20 & 2020/21 Budget Development	Mayor & Chief Executive	Summer 2018 – December 2018