Appendix 3a

Medium Term Resource Plan

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.

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

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

Plan last updated on 19th April 2016

CONTENTS

1 KEY SUMMARIES

Overall Revenue Funding Summary

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

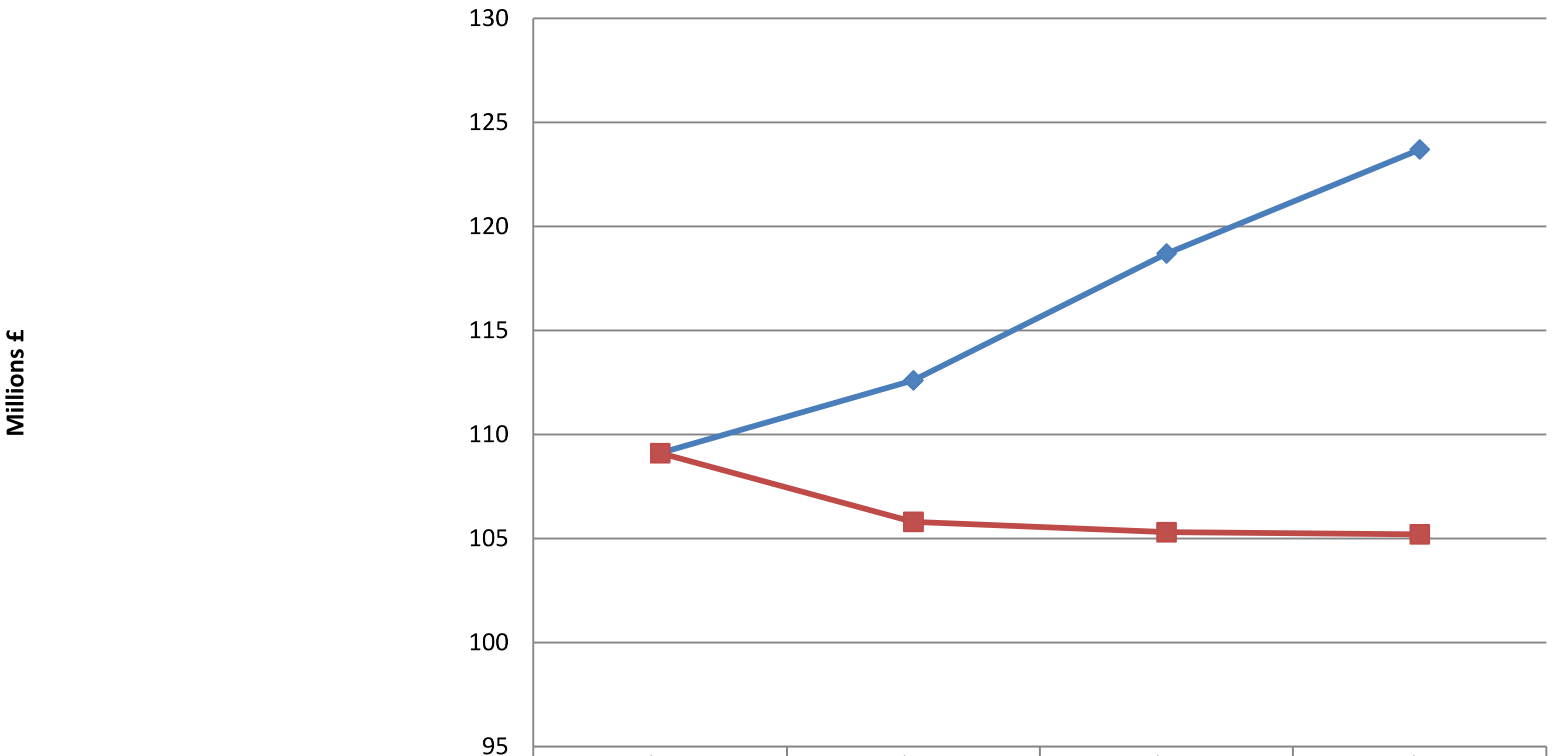
Revenue Budget	**2015/16 Restated *1 £'000**	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**
Estimated Sources of Finance (RSG, Business Rate Retention, Council Tax & Collection Fund) *(2)	(110,920)	(109,056)	(105,784)	(105,291)	(105,238)
Net Expenditure budget Net expenditure base budget b/f	116,975	110,920	109,056	105,784	105,291
In year movements e.g. pressures, investments and funding changes	5,354	7,419	5,239	4,921	3,900
Adult Social Care 2% Council tax	0	1,089	1,104	1,125	1,148
Less service savings/income	(12,975)	(8,806)	0	0	0
Less 2015/16 One Off expenditure	0	0	(2,790)	0	0
Add 2015/16 savings delayed until 2016/17 – Adult Social Care	1,566	(1,566)	0	0	0
Total Net Expenditure budget	**110,920**	**109,056**	**112,609**	**111,830**	**110,339**
Savings required in year to balance budget			**(6,825)**	**(6,539)**	**(5,101)**
Total Net expenditure budget after savings	**110,920**	**109,056**	**105,784**	**105,291**	**105,238**
Total Savings to be identified for the period of the Plan 2017/18 to 2019/20					**(18,465)**

*(1) Technical change to presentation from 2016/17. Income from Devon Business Rate Retention Pool no longer classified as sources of finance income but service income. Section 31 New Burdens Grant – Business Rates, no longer classified as service income but sources of finance income.

*(2) 2016/17Revenue Budget identified a funding gap £12.4m this includes the deferred Adult Social Care saving of £1.6m. The balance of £10.8m is reflected as:-
Service Savings £8.8m, additional source of funding including council tax and NNDR of £1.3m, £0.7m of savings through changing inflation assumptions on both income and expenditure.

Table last updated 19 April 2016

Overall Funding Summary



	2016/17 £ m	2017/18 £ m	2018/19 £ m	2019/20 £ m
Expenditure excluding all savings for the period of the Plan	109.1	112.6	118.7	123.7
Income	109.1	105.8	105.3	105.2

Table last updated 19th April 2016

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 four years, the financial challenges and will help the Council deliver the priorities as set out in the Corporate Plan.

The budget challenges for future years where the Council's Revenue Support Grant is expected to be cut at a similar level to recent years cannot be understated. These are significant budget reductions and with over 60% of Council net budget allocated to social care the challenge to get a robust budget that provides the statutory services the Council must provide is immense.

The Council in 2015/16 had two **key inspections**. The ofsted inspection judged children services as inadequate. However in the report the inspector noted that childrens services was well resourced. The other inspection was from the LGA which looked at both financial resilience and governance. In relation to financial resilience the report concluded that Torbay's financial position was no worse than a number of other councils but faces significant financial challenges. **However the team conclude that Torbay council was viable in the future if it made tough financial decisions at pace**. As a result the council has established a transformation team to help deliver the financial reductions required.

The **Local Government Finance Settlement** for 2016/17 was finalised in February 2016. This settlement combined with a number of related announcements, such as a review of funding allocations between councils, will lead to a very challenging and uncertain period for local government.

In the settlement DCLG have allowed Councils with social care responsibilities to increase (each year) their council tax income by 2% per annum, subject to the increase being allocated to support adult social care.

DCLG have announced with the 2016/17 Revenue Support Grant, the grant for 2016/17 and the following three years which councils are able to accept. This should allow Councils to be able to plan with some certainty as RSG reduces. If Councils wish to accept the four year settlement then they need to **publish an efficiency plan** and submit to DCLG by 14th October 2016. This plan will outline how the Council will achieve a balanced budget over the next four years. 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 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". When the change in funding happens it will be fiscally neutral with RSG removed completely, other grant funding being reduced (Public Health Grant?) and more responsibilities being passed to Councils (Attendance Allowances?).

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 efficiency plan as more clarity emerges over the next few years.

Uncertainties include:

- DCLG have announced a review of the allocation of resources between Councils. If Torbay's relative "need" has reduced since the last review compared to other councils then the Council is likely to lose funding.

- Review of New Homes Bonus, with the aim of reducing spend nationally by £800m

- Changes to adult social care funding to the 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 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 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.

- Impact on Council NNDR income from national 2017 NNDR revaluation and the proposal to revalue NNDR every 3 years.

- The move to change NNDR increases from RPI to the (usually) lower CPI from 2020/21 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.

Based on the proposed change by the end of this parliament it is likely that Torbay will be primarily reliant on council tax and NNDR income for its funding. This move does present risks to Torbay due the potential variations in income however this does provide a very **strong incentive to councils to plan for and achieve taxbase growth** in both these areas.

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 previous and current governments’ commitment to reduce the public sector deficit and the continuing period of austerity the country is facing, local government continues to face a very challenging future primarily driven by the ongoing reduction to the funding provided to support local services.

These reductions combined with demand and inflationary pressures has required the Council to make budget reductions of over £60 million over the past six years with over £12m planned for in 2016/17 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	Est.	7	69
2018/19	Est.	6	75
2019/20	Est.	5	80

Table last updated 19th April 2016

Over the past four years the Council has accepted the Council Tax Freeze Grant to keep local tax increases to nil. This grant has now been scrapped for 2016/17 onwards with a relaxing of DCLG position on Council tax rises. Councils like Torbay with social care responsibilities are now able to raise council tax by 2% specifically for social care. Any Council tax rises of 4% or over would be subject to a local referendum. For planning purposes this **plan assumes a council tax increase of 3.99% per annum for each year of the plan, however any rise would need to be approved by Council.**

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.

The Government announced in 2015 the continuation of a number of changes to the NNDR system to encourage growth. These changes will reduce NNDR income however central government had confirmed it will make good any losses in Council income as a "new burden". Additional changes were announced in 2016, it is expected but not yet confirmed that all these changes will be funded in a similar way.

The above are cash reductions in funding therefore any spending pressures the Council has, for example, from increased demand for social care, inflationary pressures or a reduction in other grants or income will be an additional pressure to be funded from budget reductions.

There is a continuing financial impact of **service pressures within Children's Services** due to caseload and complexity of cases. Continuing overspends of the current levels is unsustainable and the Council will have to continue to make budget reductions to other services, above and beyond those required by reductions on central government funding to continue to provide this level of service. For 2016/17 a further £2m was added to the children services budget to reflect these higher costs. The service spends over £8m more than its statistical neighbours and a reduction in spend to be closer to this level is fundamental to the council achieving a balanced budget over the next four years. Based on current spending levels the 2014 childrens services recovery plan is being revised.

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

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

- the ongoing impact of welfare changes in particular the replacement of a number of benefits, such as housing benefit that the Council manages, with Universal Credit (Torbay in fourth tranche - January 2016).

- Any changes arising from the devolution agenda in Devon and Somerset.

The Plan highlights the financial challenges faced by the Council and the fact this Plan estimates the Council will have to close an **estimated budget gap of £18m over three years** between 2017/18 and 2019/20 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 as well as additional pressures within Children's Social Care which are outlined later within this Plan.

The Mayor and senior officers will continue to work on options for these expected budget reductions for 2017/18, 2018/19 and 2019/20 and will issue these for consultation and debate when appropriate.

DCLG has stated that it has that it will "offer any Council that wishes to take up a four year funding settlement" with acceptance being sending DCLG a copy of the Council's published efficiency plan. To support this process an efficiency plan will be presented to Council in September 2016 prior to submission by the 14th October to DCLG to enable the council to accept the offer of a four year settlement. The Mayors 2017/18 budget proposals will include options for 2018/19 and 2019/20 budgets to support services in their service planning and transformation plans.

The Council's Capital Investment Plan, Capital Strategy, Asset Management Plan and the Treasury Management Strategy are also key financial planning documents and should be read in conjunction with this Plan. These documents are available as part of the 2015/16 Budget Digest on the Council's website at

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

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

The Council must continue to explore new ways of delivering Council services including the results of the transformation team, 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.

3 INCOME

Central Government "General" Funding

The Local Government Finance Settlement for 2016/17 was finalised in February 2016. This settlement included a offer of a four year RSG funding which is welcomed however combined with a number of related announcements, such as a review of funding allocations between councils, will lead to a very challenging and uncertain period for local government.

It is welcomed that the DCLG have announced with the 2016/17 Revenue Support Grant, the grant for the following three years which councils are able to accept. This should allow Councils to be able to plan with some certainty. If Councils wish to accept the four year settlement then they need to publish an efficiency plan and submit to DCLG by 14th October 2016. This plan will outline how the Council will achieve a balanced budget over the next four years. For Torbay its RSG reduces from £27m in 2015/16 to £6m in 2019/20. Nationally this is a £6b or 56% reduction in DCLG funding for local government.

The Councils assessment of need for grant was "frozen" at a baseline for 2013. This means that there will be 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. 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 resetting of NNDR baselines to enable the redistribution of funding between councils.

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

The table below provides an estimated position on future funding levels over the next four years. It must be emphasised that due to the uncertainty with respect to government grant reductions in 2017/18 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:

Table last updated 19th April 2016

	2015/16 Budget Restated £'000	2016/17 Budget £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Revenue Support and Education Support Grant	25,700	20,060	14,190	10,310	6,420
Education Support Grant/ LSSG	807	500	250	0	0
Business Rate Retention 49% Share	17,833	18,281	18,349	18,889	19,504
NNDR Top Up Grant	10,802	10,890	11,108	11,430	11,795
Section 31 – New Burdens Grant	1,341	1,572	1,603	1,650	1,703
Council Tax	53,437	56,631	59,284	62,012	64,816
Collection Fund Surplus/(Deficit)	1,000	1,122	1,000	1,000	1,000
Total	**110,920**	**109,056**	**105,784**	**105,291**	**105,238**

Note:

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

2. The Revenue Support Grant figures as per final LGFS February 2016

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 2016/17 grant in excess of £9.8m. This grant is ring-fenced until at least 2017/18 so for the purposes of the Plan have not been included within the overall figures. This grant is to reduce by 10% by 2017/18.

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.

Some of these grants such as public health and housing benefit administration could be removed on the change to 100% NNDR retention by councils.

New Homes Bonus is an incentive driven grant that rose in 2016/17 to be £3.1m a year on year increase of £0.6m. However as the funding for this distribution is not "new money" but money recycled from reducing Revenue Support Grant paid to Councils, it is a clear risk to the Council that unless its rates of growth and therefore "reward" is greater than the funding being withdrawn the Council will have future budget pressures. The grant reaches a maximum level after six years in 2016/17 when it is based on a rolling six year data set of new homes. Central Government have not confirmed the long term future of the grant and have in 2016 announced a review of the grant with the aim of reducing the grant nationally by £800m.

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 go completely on the move to 100% NNDR retention.

The government assessed in 2012/13 the Council's spend on supporting schools as £2.6m. As schools convert to academies, Council funding will continue to reduce and the balance on this funding will form part of the Education Services Grant (ESG). The estimated value of this grant in 2016/17 is £0.5m and will reduce to nil once all schools have transferred to academy status.

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.

To reflect the uncertainty over future grant funding levels and the uncertainty of DCLG's ability to maintain the four year funding levels if treasury require greater savings (such as the recently announced additional £3.5b required from "efficiencies") the service income budgets have been reduced by a cumulative £1m per annum.

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 2016/17 there was an increase in the tax base from changes in number of dwellings, number of CTSS claims and single person discounts and the in-year collection rate was assumed to be 96.0%.

In terms of growth in the tax base, a 1.9% increase has been estimated for 2016/17 (primarily linked to changes in Council Tax Support Scheme claims) with a estimated increase in the base of 0.75% across all other years of the plan (2017/18 -2019/20).

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 2016/17 an estimate of £2.1m and future years £1.0m for each year (2017/18 -2019/20) will be applied from the fund to the revenue budget; i.e. the collection fund surplus.

In 2016/17 the Council set a rate of £1,311.49 Council tax per Band D property which is the first rise since 2011/12. DCLG have now scrapped the previous council tax support freeze grant offered to councils worth 1% of a Council tax increase.

In the settlement DCLG have allowed Councils with social care responsibilities to increase (each year) their council tax income by 2% per annum, subject to the increase being allocated to support adult social care. This 2% 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 2016/17 for councils with social care was 4% or over. This means if a local authority wants to raise council tax by 4% or more, local residents would have the right to keep council tax bills down through a binding referendum veto.

For planning purposes the MTRP assumed that the Council will increase council tax to the referendum threshold (expected to be 3.99%) in 2017/18 and future years.

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

	2015/16 Actual	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Council Tax Base	42,371	43,180.7	43,505.7	43,830.7	44,155.7
Council Tax Level (Band D)	£1,261.17	£1,311.49	£1,363.81	£1,418.23	£1,474.82
Council Tax Income	£53.437m	£56.631m	£59.284m	£62.012m	£64.816m

Table last updated 6 April 2016

In 2016/17 The Torbay Council area had the lowest band D Council Tax in Devon at £1,564.31 including (Adult Social Care, Fire and Police precept). 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	-	-	140.05	150.42	155.17
Devon County (including Adult Social Care precept)	-	-	1,207.62	1,207.62	1,207.62
Total including Adult Social Care Precept	**1,311.49**	**1,346.99**	**1,347.67**	**1,358.04**	**1,362.79**
Fire & Police	252.82	252.82	252.82	252.82	252.82
Band D (excluding parish precepts)	**1,564.31**	**1,599.81**	**1,600.49**	**1,610.86**	**1,615.61**

Table last updated 6th April 2016

Business Rate (NNDR) Income

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

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

The multiplier is linked to September RPI which is likely to be a low increase of around 1% which will impact on Council NNDR income in 2016/17. (note: Actual RPI September 2015 was 0.8%). From 2020/21 NNDR rises will be linked to the usually lower CPI which will reduce council income compared to RPI.

The Council is not only liable for 49% of the cost of any revaluation appeals after April 2013, the start of the scheme, but also 49% of the cost of any appeal that was submitted but not resolved before that date. The value of this liability for back dated appeals will be the result of any appeals awarded by the Valuation office. The Council’s latest view is that this appeals liability is around £2.5m.

2015/16 monitoring shows NNDR income has declined, primarily as a result of successful appeals from GP surgeries. 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 2016/17 an estimated deficit from 2015/16 of £0.9m has to be funded from the revenue budget. 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. (Note under 100% NNDR this incentive is likely to be removed which will generate 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.

There is significant uncertainty over future NNDR income. At the conservative conference in September it was announced that by 2020 Councils would retain 100% of NNDR income but would be “fiscally neutral”. Confirmation of this proposal was part of the Spending Review announced in November 2015. DCLG will now consult on the best method of achieving this change.

In addition the impacts of the 2017 NNDR revaluation exercise (and ongoing three yearly revaluations) is still unknown in how central government will address changes in Councils NNDR income levels and in particular how any appeals arising from the 2017 revaluation will be funded. This could be a significant cost pressure on the Council.

Fees and Charges

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

This Plan assumes an annual inflationary increase of 3% for 2016/17 on fees and charges and for the following three years. 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.

4. EXPENDITURE

The 2016/17 budget approved by Council in February 2016 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 2016/17 base budget from which projections can be made using known or estimated data and the assumption that the services provided in that figure will continue at the same level and performance. In addition to this there are certain key assumptions which have been applied and these are:

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

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

(c) General inflation: Inflation is a routine and unavoidable cost pressure for Torbay and is part of the Council's budgetary process. A unique inflationary factor is applied to over 40 individual items of expenditure where the cost changes are highly likely such as contractual inflation and for energy costs such as electricity and gas.

For 2016/17 approx. £1.0m is included in the plan this is the net amount after applying inflation to both expenditure and income.

(d) Revenue Impact of Council decisions: Where 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 2016/17 capital plan).

(e) The next actuarial review of the employer's pension contribution is applicable from April 2017. Recent informal indications suggest that the most likely outcome will be a small increase in the employer's contribution rate. Therefore a 1% increase in the contribution rate (18.6% to 19.6%) has been assumed for 2017/18. There may be an increase due to a reduction in the Council's total payroll from declining staff numbers to fund the past deficit (which is a cash figure), less staff due to outsourcing such as TDA and TOR2, academy school transfers and ongoing budget reductions.

(f) 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. This will impact on Council staff and on Council suppliers where in some cases the extra costs will be borne by the Council.

(g) Central Government have announced the introduction of an Apprentice Levy. Details will be announced in the Spending Review in November 2015. The impact on the Council could be the requirement to pay a "levy" and the Council could receive a "quota" of apprentices to employ probably based on 2.3% of total employees.

(h) The current financial pressures in children social care and reflecting the current 2015/16 forecast financial position is putting the Council's reserves under strain. The Chief Finance officer has recommended that for 2017/18 and future years £1m is included in its revenue budget as a contingency for in year pressures. This will increase the funding gap in future updates of this plan.

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 demographics is available on the Council website.

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

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

Provision has been made in the plan for 2017/18 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 increased Better Care Fund allocations and the 2% Council tax "precept" which has to be spent on adult social care services.

There is a continuing financial impact of service pressures within Children's Services due to caseload and complexity of cases. In addition to the £2m funds provided in 2015/16 and the planned use of £2.3m of reserves (per the Childrens Services Recovery Plan October 2014), this service is expected to have service pressures of a further £2.9m in 2015/16 (Q3 15/16). An overspend of this level is unsustainable (approximately £80m over the benchmark spend for Council's with similar statistics to Torbay) and the Council will have to make budget reductions to other services, above and beyond those required by reductions on central government funding to continue to provide this level of service. To reflect this ongoing pressure as part of 2016/17 budget a further £2m was allocated to Childrens Services.

However to mitigate this service pressure a budget recovery plan for Children's services was approved by Council in October 2014 which recommended the use of £3.4m of reserves to support children's services in 2015/16 and 2016/17 before, based on the plan, the service starts to underspend in 2017/18 when it will be in a position to repay the reserves used. However based on 2015/16 monitoring the recovery plan is not achieving the planned savings therefore the plan is currently being revised and the assumptions in the original plan and implementation reviewed.

There are short term risks to achieving the approved budget reductions for services. The budget reductions identified for 2016/17 are challenging for all services and there is an underlying risk that these will not be fully achieved.

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 autumn 2016.

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. As a new arrangement with all three partners having their own demand and funding pressures the partnership is still at an early stage. The impact of the living wage is particularly significant in this service. The Plan assumes that the potential additional funding for adult social care in the 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 the previous 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.

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 is £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 impact on 2016/17 and future year budget setting process.

Change in Functions	Description	Timing
Academy Schools	Transfer of schools	April 2011, ongoing. All schools to transfer by 2022
Housing Benefit	Transfer to Universal Credit	Council in "Fourth Tranche" – January 2016
Medical Examiners' Death Certification	New Council responsibility	Expected during 2016/17
Attendance Allowances	New Council responsibility	Potential as part of NNDR changes

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	2016/17
Torbay Public Services Trust	New body to deliver services funded by a number of public sector partners.	2016/17
Childrens Social Care	Transfer of childrens social care function to Integrated Care organisation (ICO).	To be confirmed
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
Transformation Programme	A programme of initiatives to help deliver the future year savings required	To be confirmed

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.

Members will be aware the Council annually reviews and revises the level and appropriateness of the reserves being held following recommendations from the Chief Finance Officer taken in the light of the requirements of the Local Government Act 2003 and CIPFA guidance. 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 2016/17 Review of Reserves report was approved by Council in February 2016

The main pressures on reserves are:

- Financing any in year 2015/16 overspend that cannot be met from the £2.5m identified as part of the 2016/17 budget.
- Financing any 2014/15 and 2015/16 cost implications of the Judicial Review for Care Homes Fees
- Financing the costs of reducing budgets, primarily the costs of staff reductions and any set up costs for revised service arrangements
- Supporting the 2016/17 and future year revenue budget if the required savings are not achieved to ensure a "robust" budget or there is a delay in realising these savings.
- To repay to earmarked reserves the £3.4m identified in the Children's Service Cost Reduction Plan approved in October 2014 by Council.

These risks are significant and the Council needs to ensure it has an appropriate level of reserves. The current financial pressures in children social care and reflecting the current 2015/16 forecast financial position has put the Council's reserves under strain. The Chief Finance officer has recommended that for 2017/18 and future years £1m is included in its revenue budget as a contingency for in year pressures.

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 a number of health and social care budgets combined including exposure to health budgets outside the Torbay area. The combined budget is approx £400m.

In addition to the significant funding uncertainties listed in the overview section of this plan, other significant financial planning risks that will affect the projections are likely to be:

- Council not approving Efficiency Plan in September 2016

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

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

- The achievement of the Childrens Services 5 year cost reduction plan and the repayment by Childrens of £3.4m of reserves from future savings based on the Plan and £1.5m from the use of the earmarked PFI Reserve in 2014/15.

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

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

- Achievement of 2016/17 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.

- 2016 Pension actuarial Review

- Collection fund balances – collection of NNDR and Council Tax

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

APPENDIX ONE - TIMETABLE

The key dates in relation to the Council’s 2017/18 budget setting process are:

Revenue Budget Setting Process		Timeline
2016/17 Outturn Reports	Council	July 2016
2017/18, 2018/19 & 2019/20 Budget Development	Mayor & Chief Executive	Summer 2016 – December 2016
Efficiency Plan	Council	September 2016
Acceptance of four year RSG settlement	Chief Finance Officer	October 14th 2016
2017/18 Mayor’s Budget Proposals	Council	November 2016
2017/18 (and 18/19 & 19/20) Budget Proposals Consultation	Mayor & Executive Director	November 2016
2017/18 Finance Background Reports available	Overview & Scrutiny Board	November 2016 for six weeks
Local Gov. Finance Settlement	DCLG	December 2016
2017/18 Budget Approved	Council	February 2017
2017/18 Council Tax Set	Council	February 2017
2017/18 Budget Digest published with MTRP update	Chief Finance Officer	March 2017
2018/19 & 2019/20 Budget Development	Mayor & Executive Director	Summer 2016 – December 2016