Medium Term Resource Plan

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

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

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

Plan last updated on 18th December 2013

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1 KEY SUMMARIES

Overall 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.

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Estimated Income (RSG, Business Rate Retention, Council Tax& Collection Fund)	126,766	117,058	107,381	99,903	95,400
Expenditure b/fd		126,766	117,058	111,148	116,950
Cost Pressures	-	2,263	1,979	2,753	2,101
Demand Pressures	-	2,456	2,500	2,500	2,500
Discretionary Decisions	-	435	0	1,050	0
Other (e.g. service funding changes)	-	(2,799)	(418)	(501)	(363)
Less proposed savings	-	(12,063)	(9,971)	-	-
Expenditure	**126,766**	**117,058**	**111,148**	**116,950**	**121,188**
Total Estimated Cumulative Funding Gap	**0**	**0**	**3,767**	**17,047**	**25,788**
Estimated In- year Funding Gap	**0**	**0**	**3,767**	**13,280**	**8,741**

Table last updated 18th December 2013

Summary Income Position

The table below summaries all the income information identified in section 5 of this Plan.

	2013 /14 Actual £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Revenue Support , LACSEG and LSSG Grants	44,061	36,330	25,261	16,214	9,517
Business Rate Retention & Top Up	28,433	28,420	28,682	29,395	30,513
Council Tax	52,447	52,608	52,738	53,794	54,870
Collection Fund Surplus/(Deficit)	1,825	(300)	700	500	500
Total	**126,766**	**117,058**	**107,381**	**99,903**	**95,400**

Table last updated 18th December 2013

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

2 TIMETABLE

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

Revenue Budget Setting Process		Timeline
2014/15 Budget Development	Mayor & Executive Director	January 2013 – November 2013
2014/15 Budget Consultation	Executive Director	Autumn 2013
2014/15 Finance Background Reports available	Overview & Scrutiny Board	December 2013
2014/15 Mayor's Budget Proposals	Council	December 2013
2014/15 Budget Approved	Council	February 2014
2014/15 Council Tax Set	Council	February 2014
2014/15 Budget Digest published with future years	Chief Finance Officer	March 2014
2013/14 Outturn Reports	Council	July 2014

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

3 KEY INDICATORS & ASSUMPTIONS

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

	2012/13 Actual	2013/14 Target	2014/15 Target	2015/16 Target
Assumptions:				
Council Tax Rise	-	0%	0%	0%
Reduction in Income	-	£3.2m	£9.7m	£9.7m
Council Tax in Year Collection Rate	96.1%	96.5%	96.5%	96.5%
Savings Required	-	£9.3m	£12.1m	£13.7m
New Homes Growth	-	0.4%	0.4%	0.4%
Key Indicators:-				
Performance against Budget (% variance under)	(0.3)%	0%	0%	0%
Long Term Borrowing against long term assets	50%	60%	60%	60%
General Fund Reserve against budget	3.5%	3.5%	4%	4%
Schools reserves against DSG	7%	5%	5%	5%
Earmarked Reserves against net budget	21%	12%	17%	15%
Liquidity – current assets against current liabilities	2.8:1	2.2:1	1.5:1	1.5:1

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To arrive at the estimates contained within this plan the Chief Finance Officer, where appropriate, has considered alternative scenarios and the sensitivity of the estimates used.

4 OVERVIEW

The Medium Term Resource Plan (MTRP) is a key financial planning document and supports the Council in ensuring it uses its resources in the best way possible to meet the needs of communities in the Bay and to plan effectively for the use of those resources in the medium term. 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, particularly from 2015/16 onwards, where the Council's Revenue Support Grant is being cut by 30% in that one year 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 should provide is immense.

Local government has always been subject to a number of significant challenges as a result of changes to national policies and increasing demands. However with the government's commitment to reduce the public sector deficit and the continuing period of austerity the country is facing, local government has never faced a more uncertain future primarily driven by the ongoing reduction to the funding provided to support local services. 2014/15 will be the fourth year of the current Comprehensive Spending Review where central government funding to local government is expected to have fallen by 28% over these years and the Council has used the Council Tax Freeze Grant to keep tax increases to nil.

Central Government published the 2014-15 Local Government Finance Settlement on 18th December 2013. This indicated that Torbay Council's 2014/15 "baseline" funding would be £64.3m in Revenue Support Grant and Business Rate Retention compared to £71.2m in 2013/14, a year on year reduction of £6.9m.

In addition the Chancellor announced a "baseline" figure for 2015/16 with a RSG and Business Rate Retention sum of **£54.5m,** a reduction of £9.8m or a two year reduction of £16.7m compared to 2013/14.

The Governments figures are based on their <u>assumed</u> 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 reducing.

The Government has announced a number of changes to the NNDR system to encourage growth. These changes will reduce NNDR income by the central government had confirmed it will make good any losses in Council income as a "new burden".

These 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. If these pressures are recognised the Council is facing a two year shortfall of £25.8 million. Of this figure £22m has been identified and budget reductions are being consulted on.

There is a continuing extreme financial impact of service pressures within Children's Services due to increasing numbers and complexity of cases. In addition to the £2m extra funds provided in 2013/14 for safeguarding, this service is expected to overspend by a further £4m in 2013/14. An overspend of this level is unsustainable and the Council will have to make budget reductions to other services elsewhere, above and beyond those required by reductions on central government funding to continue to provide this level of service.

In addition the central government is proposing for 2015/16 to change the allocation of <u>existing</u> funding in a number of areas by removing (or pooling) existing revenue and capital grants from the Council and distributing them to a regional body or pooled working, such as:

- transferring the Integrated Transport capital grant to support the Local Enterprise Partnership and

- transferring the Disabled Facilities grants and social care capital grants to be combined in the proposed Health and Social Care Better Care Fund.

In all these cases these are funding sources that the Council currently uses so any reductions in these will have to be funded from additional reductions to expenditure unless the new body agrees to fund existing pressures.

The Council will continue to plan for the 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 the Universal Credit. Despite the delays the government is still stating April 2017 as the target date for full implementation, although that may be revised.

The Plan will provide the **context** for future financial planning and the Council will need to consider how to address the implications of reduced funding over the remaining year of the current Comprehensive Spending Review (CSR) period, the provisional settlement for 2015/16 and the deficit reduction plan after that period in conjunction with development of the Council's Corporate Plan and priorities.

The Plan highlights the financial challenges faced by the Council and the fact this Plan estimates the Council will have to close an estimated budget gap of **£26m,** (in addition to the £22m savings identified in November 2013 for 2014/15 and 2015/16), over three years between 2015/16 and 2017/18 based upon existing service demands and "normal" budget pressures including inflation and demographics for the Bay. The expectation is ongoing budget reductions are likely to continue for the rest of this decade. These reductions have to be set in context of the Council having to absorb the impact of rising costs, in particular to meet the care needs of an increasingly elderly and frail population as well as additional pressures within Children's Social Care which are outlined later within this Plan.

Given the size of the potential reductions, the Council has been identifying savings for both 2014/15 and 2015/16 rather than the annual saving process previously used. Due to the expected scale of reductions faced by the Council it will not be possible to achieve these savings by further efficiencies and it is inevitable that some services will face reductions or will be subject to significant changes.

As articulated through the Corporate Plan, despite these difficult times, the Council's strategy will be to continue to deliver value for money services and quality services and an affordable council tax level for local residents. During the autumn of 2013 the Council embarked upon a consultation exercise with residents and stakeholders on the scale and type of reductions to services to address the budget gap in 2014/15. In early December 2013 the Mayor presented his proposed revenue budget for 2014/15, together with spending targets for Council services in order to achieve the required budget reduction.

The Council's provisional allocations from central government for both 2014/15 and 2015/16 in December 2013 will be confirmed in early 2014.

It is clear that the Council continues to face its most challenging period since it became a Unitary authority in 1998 and it will need to develop a strategy which addresses the funding shortfall in future years and take measures that will try to minimise the impact of the spending cuts to a deprived area such as Torbay.

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

5 INCOME

Central Government Grant

The CSR announcement in October 2010 suggested that, over the 4 year period, the level of grant from the Government would fall by some 28% in real terms. In June 2013 the Chancellor as part of the Budget Statement reduced the national funding allocations to Local Government for 2014/15 by a further 1% In addition the Chancellor announced a headline reduction of **10%** for 2015/16 in the overall local government spending limit which includes the NNDR retention scheme. For Torbay in 2015/16 this equates to a £10m or 30% reduction in grant.

Total spending in 2016/17 and 2017/18 will continue to fall in real terms at the same rate as during the Spending Review 2010.

It is worth noting that the Councils assessment of need for grant was "frozen" at a baseline for 2013 and is expected to be until 2020. This means that there will be no additional funding of the Councils "need" for funding increases say in demand for social care. The Councils funding will be linked to 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.

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 2014/15 onwards and the introduction of the Business Rate Retention Scheme this is an estimated position at a point in time.

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Business Rates – 49% share	17,603	17,496	17,801	18,428
Top Up payment	10,600	10,892	11,229	11,611
Revenue Support Grant	35,318	24,755	16,115	9,422
LSSG Grant	112	106	99	95
LACSEG Grant (estimate - funding to be announced)	900	400	0	0
Distribution from the Devon Business Rate Retention Pool	217	294	365	474
Total "General" Income	**64,750**	**53,943**	**45,609**	**40,030**
% reduction		**17%**	**15%**	**12%**

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For the purposes of this Plan it has been assumed Torbay will have a £24.7m reduction in its core grants from central government over the four year period. This estimate is based on a combination of factors including:

- the fall in the overall resources available to local government;
- the impact of the transfer of specific grants to revenue support grant;
- the impact of the transfer of resources from local authorities to fund academy schools;
- the impact of any technical changes such as RPI assumptions and "hold backs" to grant allocations.

In 2013/14 Public Health transferred to local authorities, this is a commissioned service with a series of contracts with a number of providers. The service is funded by a grant in excess of £7m. This grant is ring-fenced until at least 2014/15, so for the purposes of the Plan has not been included within the overall figures.

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

Government Grants (Direct and Indirect)

The Council does receive specific grants such as Dedicated Schools Grant (where the majority goes directly to schools), Public Health Grant and the Housing Benefit Administration Grant (which is treated as part of the revenue account), and a number of other smaller grants. The DSG will reduce as more schools convert to academies, the housing benefit grant will reduce with the introduction of universal credit and the Public Health Grant is ring fenced.

With the introduction of the Council tax Support Scheme the Council received a grant of £12m equal to 90% of the costs of the old Council Tax Benefit Scheme. This grant has now been transferred to the revenue support grant. In a technical consultation document DCLG state that the value of this grant has been protected at a national level but is part of the Revenue Support grant that is subject to a percentage grant reductions, which in one year alone, 2015/16 is 30%.

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 Local Authority Central Spending Equivalent Grant (LACSEG).

The 2011/12 Council Tax Freeze grant has been rolled into Revenue Support Grant (RSG), the Council Tax Freeze grant for 2013/14 will continue and will be rolled into (RSG) in 2014/15. For the purpose of the plan it is assumed that the Council Tax Freeze grant will be accepted in 2014/15 and 2015/16.

For the purposes of this plan it has been assumed that the section 256 funding from the NHS will continue through to 2014/15. This funding must be paid to Council's from the NHS and spent on Adult Social Care and providing health benefits. However from 2015/16 this funding will form part of the pooled health and social care "Better Care Fund".

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, the level of Council Tax and the assumed level of in-year collection.

For 2013/14 there was a small increase in the tax base, the Council Tax remained at the same level as the previous year (£1,261.17) due to the application of the council tax freeze grant, and the in-year collection rate was assumed to continue to be 96.5%. The tax base was significantly affected by the impact of Council tax Support Scheme. As the Council is still in the first year of the scheme the full impact on the value of support given income and collectability of income is still being understood.

In terms of growth in the tax base, a minimal increase in the base is expected of 0.25% across all years of the plan.

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 following financial year following collection. In 2014/15 and 2015/16 £0.7m will be applied from the fund i.e. the collection fund surplus.

The final determinant for external income is the level of Council Tax. In 2013/14 the Council set at rate of £1,261.17 per Band D property which has been held since 2011/12. In exchange for a nil increase the Council gets a grant equal to a 1% rise.

The 2011/12 Council Tax Freeze grant has been rolled into Revenue Support Grant (RSG), the Council Tax Freeze grant for 2013/14 will continue and be rolled into (RSG) from 2015/16. (The grant for 2012/13 was for one year only).

The MTRP makes an assumption that the Council will accept any 2014/15 and 2015/16 Council Tax Freeze Grant therefore the council tax increase will be 0%. Members are advised that if a similar grant of 1% (or £0.6m) is offered by the government in 2014/15 and 2015/16 and accepted both amounts may have to be reversed in 2016/17 resulting in an additional budget pressure. In addition there is the financial impact of any council tax increase foregone from accepting the Council Tax Freeze grant, which would have been built into the Council's base budget if a council tax increase had been made.

In addition the, government announces on an annual basis the Council Tax rise referendum threshold. For 2013/14 this was 2% and is not expected to change for 2014/15. This means if a local authority wants to raise council tax by more than 2%, local residents would have the right to keep council tax bills down through a binding referendum veto. For planning purposes the MTRP assumes that the Council will accept the Council Tax Freeze grant for 2014/15 and 2015/16, then increase council tax by 2% in 2016/17 and future years. This is, in the short term, below predicted rates of inflation and in the long term equal to the Bank of England target rate for inflation. In addition this is equal to Central Governments referendum limit for 2013/14.

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

	2014 /15 Estimate	2015/16 Estimate £'000	2016/17 Estimate £'000	2017/18 Estimate £'000
Council Tax Base	41,713	41,818	41,818	41,818
Council Tax Level (Band D)	£1,261.17	£1,261.17	£1,286.39	£1,312.12
Council Tax Income	£52.608m	£52.739m	£53.794m	£54.870m

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Business Rate 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 49% of changes in business rate income (up and down). 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. The Council is not only liable for 49% of the cost of any revaluations 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. It is hard to estimate what this figure could be, however the Council's latest view is that this liability could be £3m.

Current year monitoring shows negative growth in NNDR and this lack of growth has been reflected over the period of the plan.

The Council will remain part of the Devon wide Business Rate pool which has a financial benefit of approximately £0.3m per annum to 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 will be met by central government providing a "New Burdens" Grant.

New Homes Bonus

This is an incentive driven (new homes) grant that is expected to be £2m in 2014/15. 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.

Fees and Charges

The Council receives in excess of £22m 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. Services are required to set their charges in accordance with the Council's Income Strategy which sets the criteria that need to be considered when setting charges.

No assumptions have been made with respect to fees and charges within the figures included as part of the Medium Term Resource Plan. However, Service Managers will be expected to develop these in line with the Strategy and will need to consider all options for income generation in the context of the challenging financial period facing the Council whilst taking into account issues of subsidies to encourage usage and the impact of charges upon residents and their ability to pay in these difficult economic times.

6. EXPENDITURE PRESSURES

The 2013/14 budget approved by Council in February 2013 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 2013/14 base budget from which projections can be made using known or estimated data.

The starting figure for the plan is the 2013/14 budget and 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 2014/15 for staff in line with Government expectation followed by rises of 1% in each of the following years.

(b) Increments. These are gradually being reduced over the period of the plan to reflect the impact that job evaluation will have on pay and grade structures. 2014/15 is the final year and £0.2m has been included.

(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 increase is highly likely such as contractual inflation and for energy costs such as electricity and gas. For 2014/15 £2.1m has been included.

(d) Revenue Impact of Council decisions: Where Council has taken a decision that will impact on future revue budgets this is included. The significant example of this is the decision to provide £20m towards the South Devon Link Road due to be operational by 2016/17. At present only funding to support £6m has been identified therefore the borrowing and repayment costs of the remained £14m, (worst case assuming no capital contributions), will be an ongoing revenue pressure of £0.9m per annum from 2016/17.

(e) The impact of the actuarial review of the employer's pension contribution from April 2013. The rate for 2014/15 that the actuary has advised the Council is 18.6% an increase of 1.6% from the current 17% rate. The 1.8% is the net of a 2.7% increase due to declining staff numbers to fund the past deficit, less staff due to outsourcing such as EDC and TOR2, academy school transfers and ongoing budget reductions and a 1.1% decrease due to reform of the scheme from April 2014 which is expected to reduce the overall liabilities in the scheme, by a reduction in staff pension benefits.

(f) Changes in employment and employment taxes. The Council is facing auto enrolment in pension schemes during 2014 and from April 2016 a pension related 3.5% change in employer national insurance contribution rates

Service Pressures

All local authorities are faced with making a number of difficult decisions in the face of some of the largest cuts to local government grant within a generation. Whilst the Council will attempt to minimise the impact of funding cuts upon local services through innovative methods of service delivery and maximising efficiencies where possible, the expected reduction in future grant funding cannot be managed without significant reductions to service levels and changes in the way services are delivered.

A summary of some of the service pressures which the Council will still be faced with and emerging pressures that may arise once the full impact of the cuts to public expenditure are realised are listed below.

Pressures arising from 2013/14:

- The continuing extreme financial impact of service pressures within Childrens Services due to increasing numbers and complexity of cases. The number of Children Looked After has increased steadily from 199 at November 2010 to 299 at the end of September 2013. In addition to the £2m extra funds provided in the 2013/14 budget for safeguarding, this service is expected to overspend by a further £4m in 2013/14. An overspend of this level is unsustainable and the Council will have to make budget reductions to other services elsewhere, above and beyond those required by reductions on central government funding to continue to provide this level of service.

- The Council has seen an ongoing reduction in its income levels, in particular within car parking and other income linked to the economy such as planning income. These pressures are expected to continue in the short term but linked to the state of the economy however there should be a reversal of the trend in the medium term.

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

- Welfare reform proposals including a reduction in local housing allowance rates to claimants, shared accommodation rates increased from under 25s to under 35s and a Benefit Cap threshold.

Demographics

As well as the anticipated reduction in funding, the Council's budget is also being squeezed from the other direction with a continuing increase in the number of vulnerable people accessing Council services, notably within Adult Social Care and Children's services.

Information on the Council's demographic is available on the Council website. Some headline statistics include:

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

Indicator	Torbay	South West	England & Wales
Population	131,000	-	-
Households	59,000	-	-
Population over 65+	23.6%	16.5%	19.6%
Population over 50+	44.5%	36.0%	37.7%
Working Age in Work	69.4%	76.4%	70.1%
Benefit Claimants	19.6%	12.3%	14.7%

Source – Torbay Facts & Figures – July 2012

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 anticipate 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 2015/16 onwards for demographic growth of £2.5m per annum but this will be under significant pressure to resource within ongoing efficiencies and changes to service delivery.

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. Most of these came into effect in 2013/14 but will impact the 2014/15 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	April 2014 to March 2017
Council Tax Support Scheme	New scheme replacing Council Tax Benefit	April 2013 ongoing
Medical Examiners' Death Certification	New Council responsibility	Expected during 2014/15

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

Initiative	Description	Timing
Waste Reduction	Energy From Waste Scheme	November 2014
Adult Social Care	"Acquisition" process for Provider Trust	April 2014
Community Development Trust	New body to co ordinate voluntary sector	2013/14
Early Intervention	Local Integrated Services Trust	2014/15
Youth Trust (potential)	New body to provide and co ordinate youth services	2014/15
Integrated Transformation Fund	Pooling of resources with health and social care body	2015/16
Local Enterprise Partnership	Pooling of resources with regional body	2015/16

7 CAPITAL, ASSET MANAGEMENT AND TRESURY MANAGEMENT

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 on the Council's website at http://www.torbay.gov.uk/financialservices and the links to the individual reports relating to 2013/14 presented to Council in February 2013 are below:

Capital Investment Plan

http://www.torbay.gov.uk/DemocraticServices/documents/s12125/Appendix%2011a%20Capital%20Investment%20Plan.pdf

Treasury Management Strategy

http://www.torbay.gov.uk/DemocraticServices/documents/s12119/Appendix%206%20Treasury%20Management%20Plan.pdf

Capital Strategy

http://www.torbay.gov.uk/DemocraticServices/documents/s12117/Appendix%204%20Capital%20Strategy%202012.pdf

Asset Management Plan

http://www.torbay.gov.uk/DemocraticServices/documents/s12118/Appendix%205%20Asset%20Management%20Plan0113.pdf

There is a direct relationship between the Council's capital and treasury management and the revenue budget – by the minimum revenue provision (for repayment of borrowing), interest costs, interest receipts and the ongoing revenue implications of capital projects either operational or financing.

Capital Investment Plan

The 4 year Capital Investment Plan was approved by Council in February 2012 and the latest position is updated for Members on a quarterly basis. In addition Council will receive and approve the Capital Strategy and Asset Management Plan which may have an impact on the programme on the revenue budget.

The Plan also includes a potential £20m expenditure on the South Devon Link Road to be funded primarily from prudential borrowing which will be a pressure on future year revenue budgets after the Road is operational.

The impact upon reductions to capital funding is reflected within the Council's Capital Investment Plan, an extract is shown below of the revised 4 year Capital Investment Plan based on approval schemes.

Revised 4 year Plan July 2013	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	Total £'000
Planned Capital Expenditure	27,310	18,421	9,498	4,699	59,928
Planned Capital Funding:-					
Supported Borrowing	800	0	0	0	800
Unsupported Borrowing	10,115	8,748	8,899	4,699	32,461
Grants	14,199	6,730	95	0	21,024
Contributions	852	63	0	0	915
Reserves	702	661	0	0	1,363
Revenue	250	200	225	0	675
Capital Receipts	392	2,019	279	0	2,690
Total Funding	27,310	18,421	9,498	4,699	59.928

The plan is dependent on a number of funding streams – such as government grants, capital receipt and capital contributions such as the community infrastructure levy. Currently there is increasing uncertainty over the level of government grant particularly in 2015/16 where a number of Council capital grants may be pooled with other organisations. In addition the Council is not expected to adopt a local plan until 2014 so the Council will not receive any Community Infrastructure Levy until 2015.

Treasury Management Strategy

Council approves an annual Treasury Management Strategy. This plan is significantly influenced by the council's approved capital expenditure plan particularly in relation to the timing of spend and the level of prudential borrowing approved that is required to be financed. The Strategy includes estimates for interest rates which will impact on the Councils' investment income and interest payable budgets.

In relation to Treasury Management a key factor is level of council borrowing compared to need over the medium term and its underlying need to borrow which is reflected in its capital financing requirement (CFR). In the medium term the level of Council borrowing should not exceed its CFR. Borrowing levels under CFR indicate that the Council has used cash flow from other sources, such as reserves or working capital to fund capital expenditure.

	2012/13 Actual £m	2013/14 Est £m	2014/15 Est £m	2015/16 Est £m	2016/17 Est £m	2017/18 Est £m
Total Capital Financing Requirement (CFR)	136	142	146	150	150	145
Movement in CFR	-1	6	4	4	0	-5
Movement in CFR represented by:-						
Net financing need for the year - capital	4	11	9	9	5	0
Less: MRP/VRP and other financing movements	-5	-5	-5	-5	-5	-5
Movement in CFR	-1	6	4	4	0	-5

	2012/13 Actual £m	2013/14 Est £m	2014/15 Est £m	2015/16 Est £m	2016/17 Est £m	2017/18 Est £m
External Borrowing	148	138	138	138	138	134
Other Long Term Liabilities	9	9	8	8	7	7
Sub Total	157	147	146	146	145	141
Ratio of net financing costs to net revenue	7.4%	8.3%	8.5%	8.2%	8.0%	n/a
Total CFR	136	142	146	150	150	145
Borrowing (over)/under CFR	-21	-5	0	4	5	4

Table last updated 24th September 2013 - Capital Expenditure based on Quarter 1 Budget Monitoring 2013/14

7 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 Coalition Government have expressed a view that all Council's could be utilising reserves on a temporary basis during this period of austerity. Members will be aware the Council annually reviews and revises the level and appropriateness of the reserves being held following recommendations from the Chief Financial Officer taken in the light of the requirements of the Local Government Act 2003 and CIPFA guidance.

As part of the budget process a review of reserves will be undertaken and will be presented to Council. As in previous years all reserves will be robustly challenged by officers to assess where monies can be released to support the financial pressures faced by the Council. However, it is essential that reserves are sufficient to meet future demands and commitments and to ensure the level of reserves takes into account the current and future risks faced by the Council. Where reserves are reduced and released these can only be used to fund one off initiatives and not ongoing commitments.

http://www.torbay.gov.uk/DemocraticServices/documents/s12116/Appendix%203%20Review%20of%20Reserves1314.pdf

The significant funding reductions the Council continues to face and the increased financial risks from not achieving these reductions combined with significant service pressures in Childrens social care increases the financial risk to the Council and therefore the Council should consider meeting these risks by protecting and maybe increasing its reserves. The three main pressures are:

- Financing any 2013/14 overspend that cannot be met from reductions to other services
- Financing the costs of reducing budgets, primarily the costs of staff reductions and any set up costs for revised service arrangements
- Supporting the 2014/15 and 2015/16 revenue budget if the required savings are not achieved to ensure a “robust” budget or there is a delay in realising these savings.

These three risks are significant and the Council needs to ensure it has an appropriate level of reserves.

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 finance and the unknown level of cuts expected in future years. There is uncertainty as to the full impact upon the Council of changes in funding arising from the impact of Academy Funding and any changes to the other grants. To mitigate this risk, the MTRP will be regularly updated to take account of changing circumstances and new intelligence.

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

- The effect of the Local Government Resource Review on grant levels for the life of the plan
- Impact of the Business Rate Retention Scheme on Council income linked to business rate growth
- Impact of New Homes Bonus grant income linked to housing growth
- Impact of the Council Tax Reduction Scheme on Council income
- The amount of the LACSEG grant the Council will receive following the “topslicing” of Formula Grant in order to transfer funding to academies
- Inflation continues to run at a much higher rate than the rates that have been assumed, with no sign of interest rates rising to provide an offsetting income stream .
- Income projections built into the budget may not be achievable due to factors outside of the council’s control e.g. a worsening economic outlook.
- On going cost of social care both childrens and adults.