PAPER C

Purpose: For Decision

Committee report

Committee	**CABINET**
Date	**15 FEBRUARY 2018**
Title	**BUDGET AND COUNCIL TAX SETTING 2018/19 AND FUTURE YEARS FORECASTS**
Report to	**THE LEADER OF THE COUNCIL AND THE DEPUTY LEADER AND CABINET MEMBER FOR RESOURCES**

EXECUTIVE SUMMARY

1. The proposals within this report recommend a Budget for 2018/19 that provides for £7.5m of savings, a Council Tax increase of 5.99% (3.0% of which is raised specifically to be passported to Adult Social Care) and forecasts that the 3 year period 2019/20 to 2021/22 will require a further £16.5m in savings including a considerable "smoothing out " of the previously anticipated savings profile. Most notably, for 2019/20, a reduction from a forecast of £7.0m of savings to a proposed savings requirement of £5.5m.

2. These proposals are made in the context of an improving economy but where the public finances of the country still need to be repaired. The Government's drive to repair the national public finances continues to require Local Government to be a significant contributor to "balancing the national books" until 2020/21 at least.

3. Funding reductions in Local Government are at unprecedented levels and simultaneously the Council has also experienced accelerating costs, associated particularly with essential care services such as Adult Social Care and Children's Social Care.

4. Over the past 7 years (since 2011/12), the Isle of Wight Council has faced Government funding reductions of £40m as well as having to accommodate other inflationary and unavoidable cost pressures which, taken together, has seen the Council make overall savings over the last 6 years of over £68m. This represents circa 33% of the Council's controllable spending.

5. Prior to the announcements in the Provisional Local Government Finance Settlement (i.e. Government Funding) and the comprehensive review of the Council's future forecasts now completed and described in this report, the previous forecast deficit for 2018/19 to 2020/21(which was prepared in February 2017) was £19m.

6. In response, the Council approved a Medium Term Financial Strategy (MTFS) in October 2016 describing the financial challenge as the single biggest risk to sustainable public services on the Island and acknowledging that the Council needs to resolutely maximise the deployment of the resources that it does have (Revenue, Capital, Property and Staff) towards driving additional income / funding and cost savings to secure Council Services for the future.

7. The overall aim of the MTFS is as follows:

> *"In year" expenditure matches "in year" income over the medium term whilst regenerating the Island Economy and providing essential Value for Money services for our Businesses and Residents*

8. The Medium Term Financial Strategy has been designed to:

- Effectively manage and "smooth out" the required savings enabling the Council to maximise its operational capacity to implement initiatives at pace which are aimed at increasing income / funding and reducing costs

- Improve the overall financial resilience of the Council, seeking to rebuild General Reserves over the medium term in order to guard against "financial shocks" or avoidable "spikes" in savings requirement in any one year and also have the ability to respond to financial opportunities which can bring funding to the Island

- Minimise Service Reductions through measures to:

  - ➢ Engage in Entrepreneurial, Commercial and Collaborative Activities (to generate both capacity and income for the Council)

  - ➢ Improve efficiency (to reduce costs with minimal impact on service delivery)

  - ➢ Improve the Island Economy (to improve prosperity generally as well as increasing the Council's funding base)

  - ➢ Transform Public Services (to improve the service users experience and remove duplication and therefore cost)

- Ensure that funding is available to enable, or "pump prime" Spend to Save (Revenue) and Invest to Save (Capital) schemes

- Maximise the Capital Resources available to the Council; recognising that the targeted use of the Capital Programme can stimulate economic regeneration, jobs and housing with consequent positive effects on Council funding as well as reduced costs

9. In proposing the Budget for 2018/19, a significant factor has been the successful application to become a 100% Business Rate Retention Pilot for 2018/19 in a pooled arrangement with Portsmouth City Council and Southampton City Council. The arrangement is one where both risks and rewards must be shared across all authorities. The scheme is intended to reduce volatility in the income from Business Rates as well as maximise the incentive to grow the business rate base. The scheme itself includes a "No Detriment" provision, meaning that the Council can be no worse off than under the current 50% retention system with its associated protections. It does however, provide the opportunity for the 3 Councils to retain 100% of any growth in Business Rates so long as it is used to:

    i) Promote financial stability and sustainability across the pooled area

    ii) Re-invest in promoting further growth across the area

10. The pilot scheme is guaranteed for 1 year only although it is possible that it could continue thereafter so long as the 3 Councils are willing to remain in the pooled arrangement and the Government agrees to an extension.

11. In overall terms, the scheme is expected to make available an additional £14.1m across the 3 Councils. It is estimated that the IOW Council will receive the following additional sums / benefits as a direct consequence of the 100% Business Rate Retention pilot:

    i) Direct allocation for general use £1.95m

    ii) A share of the "Growth & Productivity Pot" which amounts in total to £4.23m

    iii) A distribution from the "Financial Stability Pot" amounting to £1.41m in total in the event of future Business Rate reductions

12. This additional funding has been a contributing factor in enabling the Council to further "smooth out" its necessary savings requirements over the period 2019/20 to 2021/22 as well as making additional resources available through the Capital Programme. Given the uncertainty of this additional funding in the future, it would not be appropriate or prudent to use this to contribute towards either the 2018/19 Savings Requirement or the Future Years forecast deficit at this stage.

13. The Budget for 2018/19 is proposed based on the following:

- Funding reductions from Government of £6.8m

- Inflationary costs and other cost pressures amounting to £5.2m

- Proposed Savings of £7.5m as set out in Appendix C

- An increase in Council Tax of 2.99% for General Purposes amounting to £2.3m (amounting to 75p per week for the average Band C Taxpayer on the Island)

- An increase in the Adult Social Care Precept (Council Tax) of 3.0% amounting to £2.3m (amounting to 75p per week for the average Band C Taxpayer on the Island)

- Funding for Adult Social Care via Passporting of the Adult Social Care Precept (3.0%) of £2.3m plus a further £2.2m from the Improved Better Care Fund aimed at meeting the immediate pressures on Adult Social Care and the wider social care system, including to reduce the number of Delayed Transfers of Care

- Increase in Retained Business Rates of £5.4m (of which £1.95m is as a direct result of becoming a 100% Business Rate Retention Pilot with Portsmouth and Southampton City Councils)

14. The impact of inflationary cost pressures in 2018/19 has been significant. The proposed pay awards for Council Staff (2.9%) and Firefighters (5.0%) are far in excess of that which was originally forecast by some £1.1m. The National Living Wage increase of 4.4% will also add pressure to contracts with Adult Social Care providers. Additionally, the Retail Price Index (against which a number of contracts are linked) and the Consumer Price Index (used as a measure for all other costs) are currently running at 4.1% and 3.0%, respectively. The combined impact of these inflationary pressures is an additional £1.3m versus the Council's original forecast.

15. The Government have responded by increasing the Council Tax increase limit for general purposes (i.e. referendum threshold) from 2% to 3%. Any increase beyond the 3% threshold can only be implemented following a "Yes" vote in a local referendum. The additional increase in Council Tax amounts to £776,300. The Council Tax for General Purposes for 2018/19 is proposed to take the opportunity of the additional 1% flexibility in order to mitigate the additional £1.3m inflationary cost pressure and therefore avoid the full extent of this sum being required to add to the current and future years' savings requirements.

16. The Budget Savings Requirement for 2018/19 amounts to £7.5m. The Administration's proposals are focussed on an "Avoidance to Cuts" approach in line with the Medium Term Financial Strategy. In overall terms, the proposed £7.5m of savings are characterised as follows:

Description of Saving	**Savings**	
Efficiency Savings (little or no reduction in Services)	£4.8m	64%
Additional Income	£1.6m	21%
Service Reduction	£1.1m	15%
Total	**£7.5m**	**100%**

17. For 2018/19, Efficiency Savings account for 64% of the proposed savings, with 21% relating to Additional Income and just 15% Service Reduction measures.

18. The savings proposals are broadly aligned with the response from the Budget Consultation with the residents and stakeholders. The response from the Budget

Consultation generally suggests that services to the vulnerable should receive some measure of protection. The proposals provide significant protection from savings for Children & Education at 2.9% of net spending versus the average saving of 5.6% across all areas. Whilst the savings proposed for Adult Social Care are more than the average, this is measured before the additional funding of £4.5m is passported, meaning that funding to Adult Social Care will increase by 1.5%.

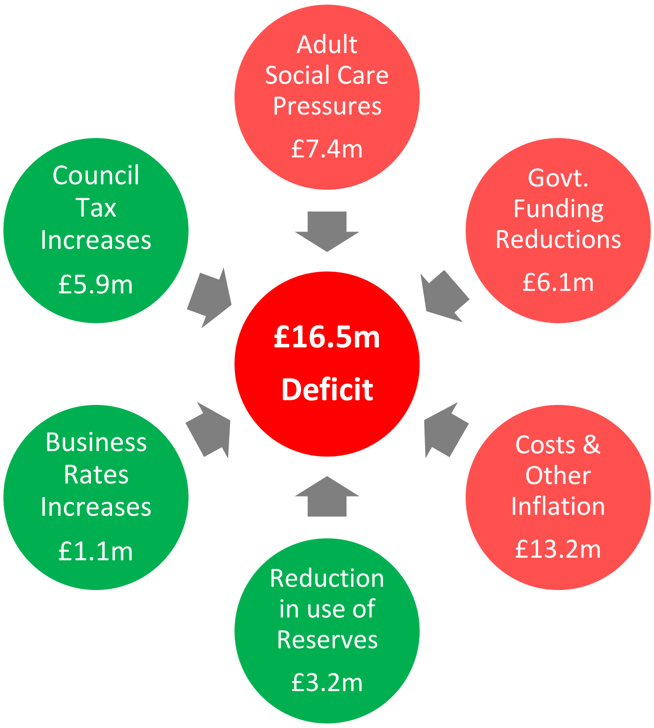
19. It is also important to recognise that in terms of Council spending, this is dominated by the essential care services. Children's Services and Adult Social Care account for 57% of the Council's total controllable budget and these Services have historically been protected.

20. There is general support from the Budget consultation with the public for an increase in Council Tax for Adult Social Care (58%) with the preference between an increase between 1%, 2% or 3% being fairly evenly split. The alternative to the proposed Council Tax increase is to increase the overall Savings Requirement by a further £776,300 for each 1% reduction in Council Tax.

21. Looking ahead, a comprehensive revision of the Council's future forecasts (i.e. beyond the 2018/19 Budget proposed within this report) has now been completed to take account of the Local Government Finance Settlement for 2018/19 and a thorough review of both Council Tax income and Business Rate income through to 2021/22. The Council has also reviewed its forecast costs including inflation, interest rates and other cost pressures. Additionally, the forecast has now been "rolled on" for the further year 2021/22 with the earlier year 2018/19 "falling out".

22. The Local Government Finance Settlement remains broadly the same as previously announced. Other factors influencing the Council's financial position such as inflation generally (pay and prices), the increasing cost pressures of Adults Social Care coupled with the reduction in the contribution by the Clinical Commissioning Group towards the Service and the level of housing delivery (affecting the New Homes Bonus grant) have had a negative impact on the Council's forecasts for future years. Initiatives by the Council, such as the successful application to be a 100% Business Rate pilot have had a positive impact and whilst it could continue in the future, it is guaranteed for 2018/19 only.

23. The new forecast for the new 3 year period 2019/20 to 2021/22 is a deficit of £16.5m and is set out below:



24. The primary drivers of the future deficit are the further funding reductions from Central Government (£6.1m) and Adult Social Care pressures (£7.4m).

25. The future forecast is predicated on increasing the level of Council Tax each year from 2019/20 onwards by 1.99% per annum.

26. The forecasts described above are the subject of a significant degree of uncertainty and particularly from 2020/21 onwards. The main causes of the uncertainty are:

i) Whether the 100% Business Rate Pilot will continue beyond 2018/19 - if it does, it could have the potential to improve the forecast by £1.95m per annum plus a share of any further increases in Business Rates across Portsmouth, Southampton and the Isle of Wight

ii) The outcome of the Fair Funding review in 2020/21 - this could have an estimated positive or negative effect in the range of +/- £3m depending on the extent to which the "Island Factor" and other factors such as relative demand for Social Care are recognised

27. Due to the uncertain nature of the future years' forecasts but coupled with the improving position in the Council's General Balances, it is proposed to further "smooth out" the savings requirements at a reduced and more even level and over a longer time period. This will ensure that in the event that the 3 year forecast improves, the Council has not prematurely made a level of savings and service reductions that could have been avoided and it allows more time for savings initiatives to take effect. Conversely, if the forecast deteriorates, the Council will have made good progress towards the necessary savings and have sufficient General Reserves to avoid significant "spikes" in Savings Requirements in any single year in the future.

28. Crucially, a savings strategy as described above can only work if the Council maintains General Reserves at the levels set out in this report.

29. To maintain alignment with the Council’s MTFS, it is proposed that the Council's future Savings Requirements for 2019/20 onwards are phased as follows:

£16.5m Deficit - Next 3 Years		
2019/20	**2020/21**	**2021/22**
£5.5m	**£5.5m**	**£5.5m**

30. The combination of responsible financial management and additional funding from the 100% Business Rate Retention Pilot scheme has enabled a smoother savings profile than previously planned, reducing the necessary savings over the next two years whilst keeping General Reserves at modest but necessary levels to support the proposed evenly phased £16.5m savings strategy for the next 3 years.

31. The proposed Capital Programme includes new Capital Investment of £10.3m and has been developed to maximise the contribution to the Council's overall MTFS. This level of additional investment has only been made possible by the addition of a £3m Revenue Contribution to Capital that was made following the underspend against the Council's Budget in 2016/17. Without additional Revenue Contributions in the future which are, as yet, unplanned, Capital Resources will remain scarce and will likely be insufficient for the Council's needs and aspirations.

32. It is vital therefore that, given the likely scarcity of Capital Resources in the future, the proposals for the Capital Programme generally span a 3 year period providing vital resilience for Council Services. The proposed Capital Programme seeks to:

- Ensure the medium term resilience of essential core services

- Transform services, including investment into providing re-ablement facilities, into digital technology to reduce the administrative burdens for social workers (freeing up time to support clients) and to initiate the first steps towards creating a Public Service Hub (e.g. Council, Police and the Voluntary Sector) and "One Public Service"

- Provide Educational pre-school facilities

- Invest in Leisure Facilities to expand on existing commercial activities to generate further income

- Provide investment to acquire strategic employment sites for the Island and provide enabling infrastructure to make them viable allowing existing businesses to expand and new business growth

- Provide investment for potential housing sites to provide for the growing Housing needs on the Island

- Invest in the attractiveness of the Island to maintain the core tourism economy and attract further investment

33. The combined suite of proposals set out in this report:

    - Achieve the necessary £7.5m of savings, providing protection for essential care services and which are consistent with the response from the public consultation with residents and stakeholders

    - Take the opportunity to secure additional, direct revenue funding as well as funding for projects to deliver growth and productivity, through the 100% Business Rate Retention Pilot Scheme

    - Sets Council Tax at a level which is critical to securing Adult Social Care services on the Island

    - Reduce and more evenly "smooth out" the necessary Savings Requirements for 2019/20 and future years

    - Provide the opportunity to supplement funding for the Transformation Reserve and future Capital Investment which are two of the key vehicles driving the MTFS and future savings

    - Deliver Capital Investment of £10.3m targeted towards both savings and regeneration whilst continuing to provide investment into essential services

    - Improve the financial resilience of the Council by building reserves over the next 3 years to guard against "financial shocks" or avoidable "spikes" in savings requirement in any one year and also provide the flexibility to respond to financial opportunities which can bring additional funding to the Island

BACKGROUND

34. The primary purpose of this report is to set the Council's overall Budget for the forthcoming year 2018/19 and the associated level of Council Tax necessary to fund that Budget. The report also seeks approval to the Capital Programme for 2017/18 to 2022/23

35. The proposed Budget for 2018/19 has been prepared to align with the Council's Medium Term Financial Strategy (MTFS) approved in October 2016. The MTFS, as a strategy remains valid for the Council's current circumstances although the financial forecasts contained therein are revised annually on a 3 year rolling basis and therefore that element is updated as part of this report. Additionally, it is intended to update the detailed plan within that strategy to reflect the recently approved Corporate Plan and the recommendations from the Corporate Peer Challenge.

36. The Council approved a savings requirement of £7.5m for the financial year 2018/19 with an underpinning assumption of a 1.99% increase in Council Tax for General Purposes and a further 3.0% increase in Council Tax specifically for Adult Social Care

(i.e. the maximum allowed for Adult Social Care). In total therefore, a 4.99% increase in Council Tax for 2018/19.

37. Since the £7.5m savings requirement was approved in February 2017, the Council has received the provisional Local Government Finance Settlement for 2018/19 which was broadly in line with the Council's forecasts although worsened by a reduction in the New Homes Bonus by £0.4m. Additionally, inflationary costs are significantly higher than the Council's previous forecasts by £1.3m, largely driven by a higher than expected pay offer and the retail price index and consumer price index conferring higher costs onto contract and other non-pay expenditure, respectively. In response to these additional inflationary cost pressures, Government have lifted the threshold increase for Council Tax beyond which a local referendum is required from 2% to 3%.

38. This report also provides a comprehensive revision of the Council's rolling 3 year future financial forecast for the new period 2019/20 to 2021/22 (i.e. compared to the previous forecast covering 2018/19 to 2020/21, this forecast now replaces the forecast for the previous 3 year period).

39. In particular, this report sets out the following:

(a) The continued challenging financial climate facing the Council in 2018/19 and beyond and the consequential budget deficits that result

(b) A brief summary of the Medium Term Financial Strategy for achieving the necessary savings as approved in the report to Council in October 2016

(c) The Revised Revenue Budget for the current year

(d) The Local Government Finance Settlement for 2018/19 to 2020/21

(e) The Business Rate income for 2018/19 and future years and the financial effect of joining the 100% Business Rate Pooling arrangements with Portsmouth City Council and Southampton City Council

(f) The Council Tax Base and recommended Council Tax for 2018/19

(g) The proposed Revenue Budget for 2018/19

(h) The financial forecast for the new 3 year period and consequent Savings Requirements for 2019/20, 2020/21 and 2021/22

(i) Estimated General Reserves over the period 2017/18 to 2021/22

(j) The forecast Collection Fund balance as at 31 March 2018 for both Council Tax and Business Rates

(k) The statement of the Section 151 Officer on the robustness of the budget in compliance with the requirements of the Local Government Act 2003.

(l) The Capital Programme for 2017/18 to 2022/23

ECONOMIC & FINANCIAL CONTEXT

40. The forecast for the national public finances set out in the Autumn Budget recently are expected to improve for this financial year and next year and then worsen over the subsequent 3 years compared with the Spring 2017 projections. The worsening position is largely due to the lower forecasts of growth over the period to 2021/22

resulting in lower than expected tax receipts, higher debt levels and increased public sector spending (mainly additional revenue funding of £2.8bn for the NHS).

41. Additional capital funding for infrastructure was announced in the Autumn Budget, mainly targeted at improving transport connectivity and housing delivery, these being funded by a £1.7bn Transforming Cities Fund (half of which was allocated directly to Mayoral Combined Authorities rather than through competition), a £1.1bn Land Assembly Fund and an additional £2.7bn for the existing Housing Infrastructure Fund.

42. Despite the worsening position for the national public finances, the Office for Budget Responsibility still forecasts that the Government remains on track to meet its fiscal rules (i.e. remain within an annual deficit of 3% of GDP).

43. The Autumn Budget has left Government Departmental Spending limits unaltered and the recent Provisional Local Government Finance Settlement left the 4 year Funding Settlement that the Council accepted intact.

44. Measures intended to greater incentivise bringing empty properties back into use were also announced. This enables Local Authorities to increase the Council Tax premium (currently 150%) to 200%. It is expected however that this will require primary legislation and therefore will not be available to be applied until April 2019.

45. Whilst funding levels generally have not changed following the Autumn Budget and Provisional Local Government Finance Settlement, other factors influencing the Council's financial position and therefore future years' Budget deficit such as inflation generally (pay and prices), the increasing cost pressures of Adults Social Care coupled with the reduction in the voluntary contribution by the Clinical Commissioning Group towards the Service and the level of housing delivery (and therefore the impact on the Council's New Homes Bonus grant) have had a negative impact on the Council's forecasts for future years. Other initiatives by the Council, such as the successful application to be a 100% Business Rate Retention pilot have had a significantly positive impact on the Council's future forecast. The Council's revised forecast for the new 3 year period 2019/20 to 2021/22 is set out later in this report.

46. Over the past 7 years (since 2011/12), the Isle of Wight Council has faced Government funding reductions of £40m as well as having to accommodate other inflationary and unavoidable cost pressures which, taken together, has seen the Council make overall savings over the last 7 years of over £68m. This represents circa 33% of the Council's controllable spending.

47. Additionally, it is recognised that Children's Services and Adult Social Care account for 57% of the Council's total controllable budget and these Services have historically received significant protection from savings over the period. Whilst it is crucial to protect the services to the Council's most vulnerable residents, those Councils that have managed the most successfully through the austerity period are those that have also sought to tackle the cost base of these large services through both efficiencies and service reductions. Importantly, significant savings are achievable without compromising care needs and outcomes through service re-design and transformation. Councils that have not managed to achieve this have seen deeper cuts that have fallen disproportionately across all other important Council services.

48. The <u>current</u> Medium Term Financial Strategy included an overall forecast Budget Deficit for the <u>period 2018/19 to 2020/21 of £19m</u> and a profile of savings to meet this deficit as follows:

£19m Deficit - Current 3 years		
2018/19	**2019/20**	**2020/21**
£7.5m	**£7.0m**	**£4.5m**

49. This financial challenge is seen as the single biggest risk to sustainable public services on the Island. Accordingly, the Council's MTFS is designed to resolutely maximise the deployment of the resources that it does have (Revenue, Capital, Property and Staff) towards driving additional income / funding and cost savings to secure Services for the future.

50. In order to meet the financial challenge, the Council set out its overall Aim of the Medium Term Financial Strategy as:

"In year" expenditure matches "in year" income over the medium term whilst regenerating the Island Economy and providing essential Value for Money services for our Businesses and Residents

51. The 6 Themes of the Medium Term Financial Strategy themes are described below:

SHORT TERM

Theme 1 **Create Financial and Operating Capacity to Transform**
Theme 2 **Increasing Efficiency & Effectiveness**

SHORT TO MEDIUM TERM

Theme 3 **Entrepreneurial, Commercial and Collaborative Activities (with managed risk)**
Theme 4 **Withdraw from or offer Minimal Provision for Low Impact Services**
Theme 5 **Improving the Island Economy**

MEDIUM TO LONGER TERM

Theme 6 **Public Service Transformation**

52. The themes within the MTFS have been designed as a comprehensive and complimentary package of measures to support the Council to navigate through the financial challenge that it faces. Theme 1 however, which seeks to improve and create financial resilience for the Council, is the critical building block to enable all other activities to take place. Without financial resilience and the sufficient general reserves, the Council will not be able to:

i) Cushion the impact on services from "financial shocks"

ii) "Smooth out" savings over a longer and manageable period, this enables longer-term savings (e.g. income generation and business rate / council tax income initiatives) to contribute towards savings which would otherwise have to be met from service cuts

iii) Take advantage of opportunities that may arise (e.g. additional external funding) which requires a Council contribution and would contribute to the future financial sustainability of the Council

Without financial resilience, the remainder of the Council's MTFS is compromised and the ability of the Council to provide sustainable public services is placed at undue risk.

REVISED BUDGET 2017/18

53. The original Revenue Budget approved by the Council in February 2017 was £150,486,700.

54. The Cabinet has received regular quarterly Budget Monitoring reports on the 2017/18 Budget throughout the year which have consistently reported an improving financial position. The current position for 2017/18 (end Quarter 3) is a forecast underspend of £1.4m (or 0.9%).

55. The forecast improvement relates largely to improved returns from Treasury Management (£0.8m) and additional income projected from the Councils Leisure Centres (£0.4m) and Bereavement Services (£0.2m) but offset by the lost income and additional operating costs arising from the floating bridge being out of service until December 2017 (£0.9m). Notably, the Council's highest risk services (Adult Social Care and Children's Social Care) are forecast to be largely in balance for 2017/18 although underlying pressures remain in Children's Social Care in particular relating to the cost of Children Looked After in external residential placements.

56. The Original Budget has now been revised to £150,544,200 to take account of:

- Additional grants received in the year which have subsequently been passported to Services
- Carry forward requests for spending plans which will slip from 2017/18 to 2018/19
- Transfers from the Council's contingency provision (e.g. floating bridge)

57. The proposed Revised Revenue Budget is set out in the General Fund Summary (Appendix A).

THE LOCAL GOVERNMENT FINANCE SETTLEMENT FOR 2018/19 TO 2021/22

58. The Council resolved to accept the Government's 4 year Settlement in October 2016 which was accepted by Government. Whilst providing some certainty of future Government Funding, the funding reductions for the Council remain significant and challenging.

59. The Government published the provisional Local Government Finance Settlement 2018/19 in December 2017 and it is in line with the accepted 4 Year Settlement.

60. In overall terms, the Council expects a further reduction in Government Funding over the remaining 2 year period of the 4 year Settlement of £11.5m representing a funding reduction of 63%. Of most significance are the reductions in Revenue Support Grant and the New Homes Bonus, totalling £10.0m.

This is summarised in the table below:

Funding Stream	2017/18 £m	2018/19 £m	2019/20 £m	Total Reduction £m
Revenue Support Grant	12.7	0.0*	4.4	**(8.3)**
New Homes Bonus	3.0	1.7	1.3	**(1.7)**
Other Grants[1]	2.6	1.3	1.1	**(1.5)**
Total Government Grants	**18.3**	**3.0**	**6.8**	**(11.5)**

* **Relinquished in full (£8.6m) in return for 100% Business Rates Retention in 2018/19 only**

61. Whilst the Revenue Support Grant forms part of the 4 Year Settlement, the New Homes Bonus and the Other Grants do not and therefore these funding streams will remain a risk for the Council in future years.

62. The overall impact of the provisional Local Government Finance Settlement on the Council's future forecast Budget Deficit over the 2 year period to 2019/20 is broadly neutral. Whilst the overall reduction of funding to 2019/20 amounting to £11.5m is a serious concern to the Council, it had been largely predicted within the Council's financial forecasts and is the main driving force behind the need for the Council to make savings now and in the future.

63. The scheme for the New Homes Bonus is intended to "sharpen the incentive" for housing delivery beyond a natural rate of growth and is summarised below:

- A threshold of a 0.4% increase in new homes (or "deadweight" and equivalent to 259 Band D equivalent homes) before any New Homes Bonus (NHB) will be paid

- Payments made for 4 years from 2018/19 and thereafter

64. Other key announcements as part of the Provisional Local Government Settlement are:

- Revenue Support Grant - There is no change to the distribution methodology for 2018/19

- Council Tax:
  - o The basic referendum threshold of a 3% increase is confirmed
  - o Adults Social Care Precept remains intact (6% increase over the 3 years 2017/18 to 2019/20).
  - o Police Council Tax can increase by a maximum of £12 (which for Hampshire equates to a 7.25% increase in their share of the Council Tax)
  - o Referendum threshold (Council Tax capping) for Town and Parish Councils have been deferred for 3 years

1 Excludes Highways PFI Grant, Prison Social Care Grant, Strengthening Families Grant and Staying Put Grant

- Planning Fees - Increases of up to 20% will be allowed but conditional upon re-investment into Planning Services

- The Government published its technical consultation on the Fair Funding review (i.e. the review of the ‘needs element’ embedded with the Revenue Support Grant and the Business Rates Retention system) to come into effect in 2020/21, this will be followed by further consultation documents in the future. This review represents a key uncertainty for future Council funding levels.

- The Business Rate Retention Scheme to come into effect simultaneously with the Fair Funding Review in 2020/21 will now be a 75% Business Rate Retention scheme (as opposed to the 100% Business Rate Retention Scheme previously announced). This also is a key uncertainty for the Council's future funding levels.

65. The Council has made a formal response to the provisional Local Government Finance Settlement making the following key points:

    - The urgent need to accelerate the Fair Funding Review which needs to give due regard to the "Island Factors"

    - The general approach to Adult Social Care funding in particular as well as other Council Services is inherently unfair across Local Authorities, gives insufficient weighting to demand pressures and benefits those with stronger Council Tax Bases

66. The final grant settlement figures should be available by early February, it is not expected to vary significantly from the provisional settlement and it is recommended that any variation should be accommodated by a transfer to or from General Reserves.

67. Whilst the Local Government Finance Settlement is a significant factor in determining the Council's overall financial position and therefore any necessary savings, other significant factors that will affect the Council's future Savings Requirements include Business Rates income, Council Tax income, inflation, interest rates and any new unfunded burdens passed down from Government. These are described in the paragraphs that follow.

RETAINED BUSINESS RATES - 2018/19 & FUTURE FORECASTS

68. The Retained Business Rates system is complex and subject to a significant degree of inherent risk. The current national system is characterised by a complex formula which includes the following:

    i) Retention of 50% of all business rates received and which is affected by the value of successful appeals, the number of mandatory reliefs (e.g. charitable relief) and the overall collection rate (i.e. how much is uncollectable and written off)

ii) Increased by a fixed amount "top up" which increases annually by the rate of inflation

iii) Compensation through S.31 Grants for national government initiatives which have the effect of reducing Business Rates to the Local Authority such as business rate capping for small businesses

iv) A "safety net" set at 7.5% below a pre-determined baseline[2] below which retained Business Rates will not fall (set at £29.16m for 2018/19)

69. In 2017/18 the National Non Domestic Rate system was subject to a re-valuation. This revised both the rateable values and the multiplier. The entire re-valuation is financially neutral at a national level with the increase in rateable values overall offset by a reduction in the multiplier.

70. Retained Business Rates system for Local Authorities is likewise intended to be financially neutral. Inevitably, this however will not be the case and there will be "winners" and "losers" across the country. The key risk is the extent to which successful appeals are greater or less than the assumed allowance for appeals contained within the new multiplier set by Government.

100% Business Rate Retention Pilot

71. The Council has been successful in its application to become a 100% Business Rate Pilot for 2018/19 in a pooled arrangement with Portsmouth City Council and Southampton City Council. The arrangement is one where both risks and rewards must be shared across all authorities. The scheme is intended to reduce volatility in the income from Business Rates as well as maximise the incentive to grow the business rate base. The scheme itself includes a "No Detriment" provision, meaning that the Council can be no worse off than under the current 50% retention system (previously described) with its associated protections. It does however, provide the opportunity for the 3 Councils to retain 100% of any growth in Business Rates so long as it is used to:

i) Promote financial stability and sustainability across the pooled area

ii) Re-invest in promoting further growth across the area

72. The pilot scheme is guaranteed for 1 year only although it could continue thereafter so long as the 3 Councils are willing to remain in the pooled arrangement and the Government agree to an extension. Current 100% Business Rate Retention pilots have had their schemes extended into 2018/19.

73. These scheme has been designed to retain the arrangements for the existing 50% share of business rate growth to remain intact with the relevant Councils and then for the Government's existing 50% share to be distributed through a "Growth Pool". The total "Growth Pool" that would otherwise have been passed back to Government but which is now available for distribution to the 3 Councils is estimated to amount to £14.1m.

2 Known as the Business Rates Baseline, set in 2013/14 and increased by inflation each year

74. The scheme has significant benefits to the Isle of Wight Council that it would otherwise not receive if it wasn't in the pooled arrangement as follows:

i) Any growth (previously 50% and estimated at £14.1m) that used to be returned to Government, is now accumulated into a pool - this is additional funding available to the 3 Councils but, importantly includes all growth since 2013/14 (not 2018/19) although it is not backdated

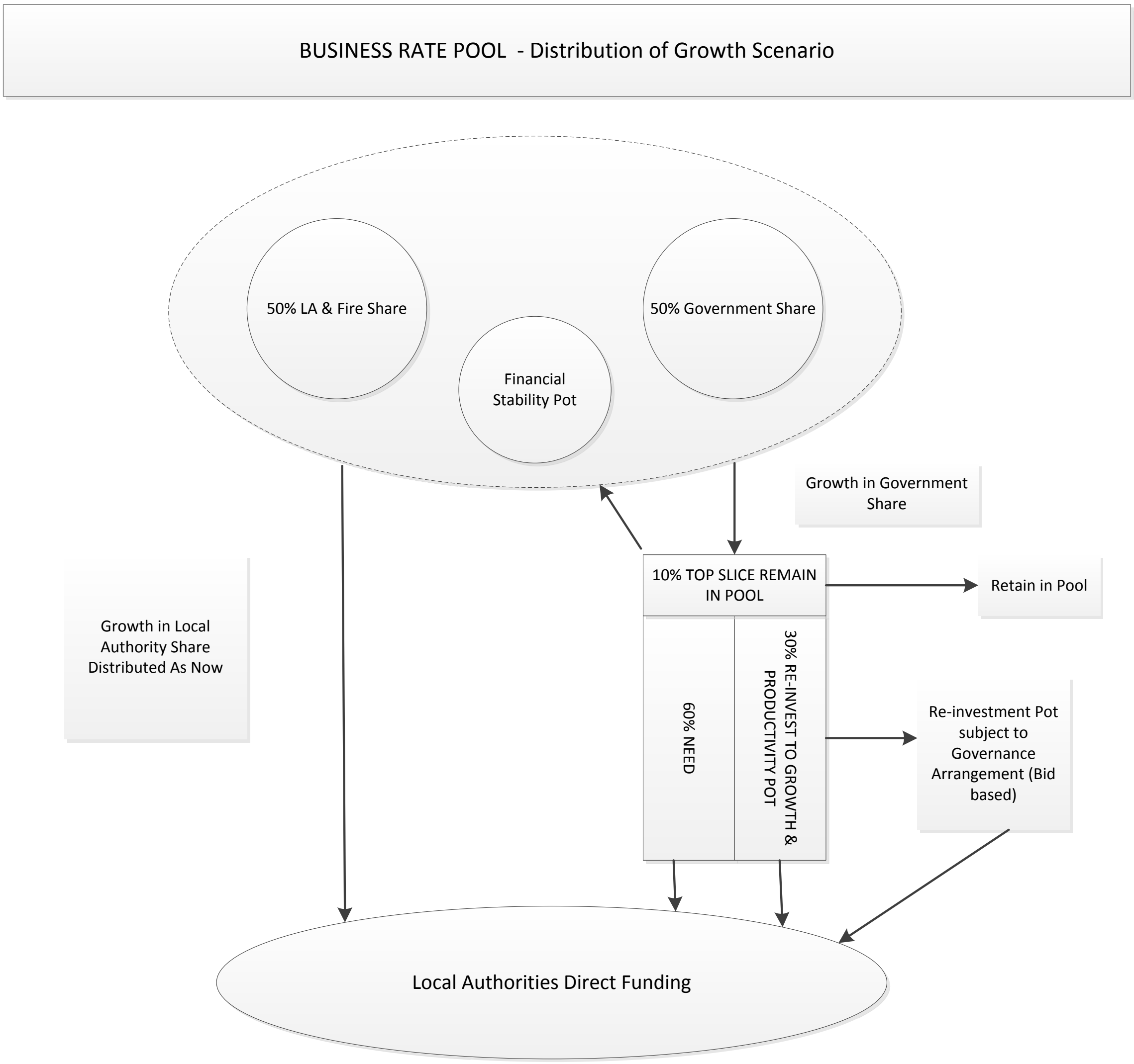
ii) The pool is then used as follows:

- 60% share out on the basis of need (defined by the Government's current grant funding formula) - This is expected to be an additional £1.95m for the Isle of Wight Council and available for any purpose

- 30% is allocated to a "Growth & Productivity Pot", to be re-invested across the 3 Councils into schemes that generate growth and productivity - This is expected to be £4.23m in total and to be shared between the 3 Councils

- 10% is retained in the pool and held back in the event of future reductions in business rates - This is expected to be £1.41m across all Councils to be available to offset any potential future business rate loss

This is set out diagrammatically over the page:



75. The Isle of Wight Council's Business Rate base represents 18% of the total Business Rates collected across the 3 Councils with Portsmouth representing 37% and Southampton representing 45% as set out below:

Authority	**Business Rates Base[3] £m**	**% Share Business Rate Base**	**% Share of Growth Pool[4]**
Isle of Wight Council	44.37	18.1%	23.0%
Portsmouth City Council	90.49	36.9%	36.6%
Southampton City Council	110.46	45.0%	40.4%
Total Business Rates	**245.32**	**100.0%**	**100.0%**

The table above also illustrates that the IOW Council will receive a relatively larger share of any growth when compared to the relative size of their Business Rate base. (i.e. a 23% share of growth for a 18% share of the Business Rate Base).

3 Includes S.31 Grants provided by Government in recompense for foregone Business Rates arising from National Business Rate relief schemes

4 Share of growth relates to that element distributed directly to the Councils on a Needs Basis (i.e. 60% of the total Growth Pool)

76. As mentioned, the Business Rates Growth Pool is essentially that element of Business Rate growth that previously was returned to Government. In cash terms, distributions from the Growth Pool will be significant for the IOW because it will include the Government's share of growth relating to both Portsmouth and Southampton whose Business Rates bases are each more than double that of the IOW. For example:

i) For a 1% increase in Business Rates across the 3 Councils, the IOW will receive £169,000 but only £133,000 of this is derived from the additional Business Rates generated on the IOW. The remaining £36,000 has been generated in Portsmouth and Southampton. This represents an uplift of 33% over and above the Business Rates generated on the Isle of Wight.

ii) For a 0% change in Business Rates in the Isle of Wight but a 1% increase in both Portsmouth and Southampton, the Isle of Wight Council will receive £139,000

77. Additionally, the IOW Council will be entitled to a share of the "Growth & Productivity Pot" which will amount to £370,000 for every 1% Business rate growth.

78. The estimated Growth Pool is significant for 2018/19 because it covers the growth for the total period 2013/14 to 2018/19 (rather than just 2017/18 to 2018/19) amounting to 13% across all three Councils.

79. In overall terms, it is estimated that the IOW Council will receive the following additional sums / benefits as a direct consequence of the 100% Business Rate Retention pilot:

i) Direct allocation for general use £1.95m

ii) A share of the "Growth & Productivity Pot" which amounts in total to £4.23m

iii) A distribution from the "Financial Stability Pot" amounting to £1.41m in total in the event of future Business Rate reductions

80. In total, for 2018/19, Retained Business Rates are estimated at £45.7m[5] (now reflecting the retention of 100% Business Rates) and which includes a deficit relating to previous years of £0.265m arising from greater than anticipated losses due to appeals. Future estimated Business Rates have been assumed to increase by the rate of inflation only (as estimated by the Office for Budget Responsibility).

81. The estimation of Business Rate receipts is extremely complex, with the potential to be volatile and with many of the factors outside this Council's control. In particular, the Valuation Office Agency will both determine whether a rating appeal is successful and the level of reduction granted with the Council having no right of challenge. To help mitigate against this risk, the Council maintains a modest reserve to provide the Council with a degree of funding stability in the event of fluctuations within and between years and will now also be afforded some protection through the Business Rate Pooling arrangements (i.e. the "Financial Stability Pot").

[5] Includes transfer to the "Growth Pool" of £3.3m and transfer from the "Growth Pool" of £1.9m plus the "Top Up" of £2.3m

82. Despite the complications and risks associated with appeals, there remains the financial incentive within the system for many Local Authorities (including the Isle of Wight Council[6]) to generate economic growth and job creation. Irrespective of the financial incentive, the Council's Medium Term Financial Strategy is aimed at Improving the Island Economy to generate growth and productivity (which improves the Council's Business Rate Base) as well as reducing the demand for Council Services generally.

COUNCIL TAX - 2018/19 & FUTURE FORECASTS

Council Tax Amount 2018/19

83. Council Tax currently represents almost 52% of the Council's total revenue funding and as Government funding has reduced, this has become an increasingly more important and dependent funding source for the Council.

84. Council Tax for the average Council Tax payer on the Isle of Wight (Band C) currently amounts to £1,449.18 (excluding parish precepts), of which £1302.10 (89.9%) is the Isle of Wight Council element. Not all residents are subject to the full amount of Council Tax with many benefitting from exemptions and discounts (such as the single person discount) and a significant number of residents receiving Local Council Tax Support bringing the level of Council Tax payable to an assessed affordable level. After discounts, exemptions and Local Council Tax support is taken into account, circa 50% of all properties are subject to the full level of Council Tax.

85. In response to inflationary pressures faced by Councils (e.g. Consumer Price Index (CPI) 3.0% and Retail Price Index (RPI) 4.1%), the Provisional Local Government Finance Settlement for 2018/19 confirmed a Council Tax increase limit for general purposes (i.e. referendum threshold) of 3%. Any increase beyond the 3% threshold can only be implemented following a "Yes" vote in a local referendum.

86. As described more fully later in this report, the actual level of inflation for 2018/19 is £1.3m higher than had been originally forecast. This is principally due to the pay award being £1.1m higher than forecast and RPI / CPI (upon which contracts and other costs are linked) estimated to cost an additional £0.2m. The Council had originally forecast that it would increase the level of Council Tax by just 1.99% for general purposes, a further increase in Council Tax of 1% (to 2.99%) would generate a further £776,300.

87. To avoid these additional cost pressures having a significant detrimental impact on the overall financial resilience of the Council in 2018/19 and also contributing towards an increase in the overall 3 year forecast budget deficit upon which savings are based, the Council will need to increase the Council Tax for general purposes by 2.99% to offset the overall increase in inflationary costs. The alternative would be to make further savings of £776,300

88. In addition, the remaining level of Council Tax increase allowed for the Adult Social Care precept for the period 2018/19 and 2019/20 remains at 3%. The Council's forecasts are based on the full remaining 3% increase being applied in full in 2018/19.

6 Applies to Local Authorities that, in general, remain above the safety net threshold over time

Should the Council elect to reduce the increase from 3%, each 1% reduction will lead to a further £776,300 pressure on Adult Social Care, requiring the Service to make further savings of an equivalent sum.

89. The additional flexibility to bring forward the Council Tax increases for the Adult Social Care Precept has been provided in recognition of the extreme cost pressures facing Adult Social Care, both through the increase in the National Living Wage (which has increased by 4.4%) as well as the demographic pressures from general aging and a "living longer" population.

90. Given the extent of the Council's financial challenge to find £7.5m of savings, the upward inflationary pressure generally, the demographic pressures in Adult Social Care and the impact of the 4.4% increase in the National Living Wage on Care Services, it is proposed that:

i) The Council Tax for General Purposes be increased by 2.99%, representing 75p per week for a Band C tax payer

ii) Adult Social Care precept be increased by 3% for 2018/19, representing 75p per week for a Band C tax payer.

91. The Council's future forecasts for the period 2019/20 to 2021/22 have been estimated on the following basis:

i) General Purposes - 1.99% rise each year

ii) Adult Social Care Precept - No further increases beyond 2018/19

Council Tax Base 2018/19

92. The Council Tax Base (i.e. the number of Band D equivalent properties paying the full Council Tax) has been determined as 52,998.0 for 2018/19, having taken account of the Council decisions on 17th January 2018 relating to the Local Council Tax Support Scheme and the changes to Council Tax discounts and exemptions for the coming year.

Collection Fund Balance (Council Tax Element) 2017/18

93. The Collection Fund is the account into which are paid amounts collected in respect of Council Tax and out of which are paid the Council Tax precepts to:

- Isle of Wight Council (90.2% share including Town and Parish Councils)
- Hampshire Police & Crime Commissioner (9.8% share)

In the event that actual Council Tax income receivable is different from the estimated income (informed by the calculation of the Council Tax Base) upon which the precepts are based, then a surplus or deficit will arise.

94. For 2017/18, it is estimated that there will be a surplus on the Collection Fund of £443,000 which will be shared in proportion to the 2017/18 precepts and distributed to the preceptors as follows:

COLLECTION FUND SURPLUS - 2017/18		
Preceptor	**Distribution**	
	£	**%**
Isle of Wight Council	399,800	90.2%
Hampshire Police & Crime Commissioner	43,200	9.8%
Total Surplus 2017/18	**443,000**	**100.0%**

The Isle of Wight Council Share of the surplus of £399,800 is factored into the overall Council Tax income for 2018/19.

Total Council Tax Income 2018/19 & Future Years

95. Considering the Council Tax increase, Council Tax Base and surplus on the Collection Fund, the total Council Tax income for 2018/19 is estimated at £82,688,400.

96. As Government funding reduces, rises in Council Tax income are fundamental to the Council's future financial position and therefore the future sustainability of Council Services. The Council's Medium Term Financial Forecast assumes that Council Tax Income will rise to £88,628,300 by 2021/22 and is based on the following assumptions:

- Annual increases in the amount of Council Tax of 1.99% per annum for 2019/20 and thereafter

- Modest growth in the Council Tax Base of 0.5% per annum over the period

REVENUE BUDGET 2018/19

97. The overall aim of the Council's Medium Term Financial Strategy is to match "In Year" spending with "In Year" income and funding over the medium term with the use of General Reserves used to "smooth out" any necessary fluctuations between years.

98. The Council's approved MTFS also described the need to repair its General Balances over time. This is vital if the Council is to stabilise its financial position, have the ability to respond to any potential "financial shocks" without resorting to quick and severe service reductions but also have the financial capacity to be able to fund opportunities as they arise. As approved in the Council's MTFS, the proposals within the Budget for 2018/19 will provide for General Reserves to be above the minimum level in order to be available to "smooth out" future years savings to more manageable levels.

99. In formulating the proposed Budget 2018/19, the Administration collected views to inform its budget proposals through a public questionnaire available online and through its front facing offices from (15 December 2017 to 29 January 2018). In total 533 responses were received, the sample is self-selecting but provides a snapshot of the views of some Island residents. The questionnaire was similar to that used last year and responses were broadly similar. Almost a third of respondents felt the council should be doing more to generate income from services that users have a choice about using; support for growing the business tax base increased by 6

percentage points to 46% of respondents, whilst investing in property fell by 7 percentage points to 30% of respondents, when compared with the previous year.

100. The great majority of respondents (92%) felt that the council should work with government to celebrate the unique Island case and recognise the extra costs of delivering public services on the Island; a similar number (89%), felt the council should be focusing on creating jobs for local people. Both responses are in line with last year. It is worth noting that support for working more collaboratively with the NHS fell by nearly a quarter but was still high at 68%.

101. Supporting schools and improving education was the first choice of respondents for increased funding, if available, closely followed by investing in regeneration and development and protecting children. Providing more libraries and increasing planning and enforcement activities were the least popular services for increased funding. Some of the general comments made in the questionnaire related to; better/cheaper ferries, a fixed link, increasing tourism (charging a levy), effective lobbying of central government, caring for the elderly and reducing council tax.

102. A well-attended meeting of town and council representatives, including some representatives from the voluntary sector on Monday 15 January, recognised the council's approach to its budget as set described in the medium term financial strategy. The importance of the council's regeneration activity to support the Island in 'reinventing itself' was recognised along with the need to provide more affordable housing, reduce homelessness and support people to live at home. The meeting was however, especially keen to see some of the most public facing, local services retained and invested in by the council. Where this is no longer possible, there was a strong support to working in collaboration with the council to sustain these services. The view was that this requires longer time frames to achieve than are currently allowed for to create truly effective partnerships. It also needs to take better account of the capacity of the different organisations.

103. An open meeting on Tuesday 16 January was, unfortunately, attended by less than 15 members of the public. There was little consensus on the council's overall approach to its budget for 2018/19. General comments ranged from the degree to which the council would be able to continue to meet its statutory responsibilities in the light of its budget pressures, to whether it should consider an outright merger with another local authority.

104. The budget was discussed with the council's business reference group on Thursday 18 January. The meeting was generally supportive of the approach being taken by the council as set out in its medium term financial strategy. There was some discussion about, and support for, the strategy's theme of the council becoming more entrepreneurial and commercial. Specific issues raised included; understanding and exploiting the skill set of the council's staff, taking equity stakes in businesses and projects and developing facilities (e.g. starter units) to secure a return on investment; more accessible procurement processes that support the use of the Island pound, becoming self-sufficient in energy (e.g. developing a power company) and making better use of technology.

105. The proposed Budget for 2018/19 has been prepared with both regard to the Budget Consultation exercise and the approved MTFS. The proposed Budget for 2018/19 also includes the following:

- Funding reductions from Government of £6.8m

- Inflationary costs and other cost pressures amounting to £5.2m

- Proposed Savings of £7.5m as set out in Appendix C

- An increase in Council Tax of 2.99% for General Purposes amounting to £2.3m (amounting to 75p per week for the average Band C Taxpayer on the Island)

- An increase in the Adult Social Care Precept (Council Tax) of 3.0% amounting to £2.3m (amounting to 75p per week for the average Band C Taxpayer on the Island)

- Funding for Adult Social Care via Passporting of the Adult Social Care Precept (3%) of £2.3m plus a further £2.2m for the Improved Better Care Fund aimed at meeting the immediate pressures on Adult Social Care and the wider social care system, including to reduce the number of Delayed Transfers of Care

- Increase in Retained Business Rates of £5.4m (of which £1.95m is as a direct result of becoming a 100% Business Rate Retention Pilot with Portsmouth and Southampton City Councils)

- Use of the additional £1.95m funding from the Business Rate Retention Pilot (currently only guaranteed for 1 year) to both support the Capital Programme as well as being available to General Reserves to facilitate a reduced level of savings over the period 2019/20 and 2020/21 (see below)

- A contribution to General Reserves of £3.2m which has been deliberately planned to enable the necessary future savings to be "smoothed out" over a longer period (including a reduction to planned savings in 2019/20 from £7.0m to £5.5m)

106. The proposed Budget for 2018/19 accommodating the Council's proposed £7.5m of savings, funding changes and other cost changes as described above is £148,149,200. It represents a reduction of £2,395,000 (1.6%) compared to the Revised Budget for the current year of £150,544,200.

107. The Administration's proposals are focussed on an "Avoidance to Cuts" approach in line with the Medium Term Financial Strategy. In overall terms, the proposed £7.5m of savings are characterised as follows:

Description of Saving	**Savings**	
Efficiency Savings (little or no reduction in Services)	£4.8m	64%
Additional Income	£1.6m	21%
Service Reduction	£1.1m	15%
Total	**£7.5m**	**100%**

108. For 2018/19, Efficiency Savings account for 64% of the proposed savings, with 21% relating to Additional Income and just 15% Service Reduction measures.

109. The savings proposals are broadly aligned with the response from the Budget Consultation with the residents and stakeholders. The response from the Budget

Consultation generally suggests that services to the vulnerable should receive some measure of protection. The proposals provide significant protection from savings for Children & Education at 2.9% of net spending versus the average saving of 5.6% across all areas. Whilst the savings proposed for Adult Social Care are more than the average, this is measured before the additional funding of £4.5m is passported; meaning that funding to Adult Social Care has, in fact, increased by 1.5%.

110. The savings proposals for 2018/19, by Portfolio / Service, are set out below for approval.

Portfolio / Service	**Savings Proposal**	
	£	**% Budget**
Adult Social Care & Public Health*****	4,063,100	7.4%
Children's Services	709,300	2.9%
Community Safety & Public Protection	409,300	5.6%
Environment & Heritage	437,100	13.6%
Infrastructure & Transport**	494,300	3.1%
Planning & Housing	207,500	5.1%
Procurement, Projects & Forward Planning	324,000	4.1%
Regeneration & Business Development	106,000	5.5%
Resources	749,400	5.7%
Grand Total	**7,500,000**	**5.6%**

*** Excludes the additional funding passported through the Adult Social Care Precept of £2.3m and additional funding for the Improved Better Care Fund of £2.2m.**

**** Excludes £19.4m of PFI Grant funding, on a Gross expenditure basis the saving amounts to 1.7%**

111. Inevitably, there are a number of financial risks contained within the proposals for making savings of the scale of £7.5m (or 5.6% reductions in net spending) on the back of making over £68m in savings over the past 7 years. The risks are unavoidable. For those risks with the highest likely impact such as Children's Services and Adult Social Care, mitigation strategies are being developed.

112. It is important to note that the Council's responsibility is to set the overall Budget of the Council and determine the individual Budget for each Portfolio / Service. It is not the responsibility of the Council to approve the detailed savings that need to be made in order for the Portfolio / Service to meet its own Budget. The Council do need to have the confidence that the recommended savings for each Portfolio are deliverable and what the likely impact of delivering those savings might be. Indicative savings that are likely to be necessary in delivering the overall Portfolio savings are attached at Appendix C and whilst the detailed savings are not a matter for the Council to decide, they are presented to inform the decision of Council relating to the savings to be made by each Portfolio / Service.

113. For savings proposals that require consultation, the actual method of implementation or their distributional effect will not be determined until the results of consultation have been fully considered. Following consultation, the relevant Portfolio Holder may alter, amend or substitute any of the indicative savings proposal(s) set out in Appendix C with alternative proposal(s) amounting to the same value.

114. As previously described, the additional funding that the Council will receive next year from the 100% Business Rate Retention Pilot, will provide an additional £1.95m of direct non ring-fenced funding but which is only guaranteed for a year. This has provided the Council with additional financial resilience and the opportunity to present a Budget for 2018/19 with a Future Forecast which:

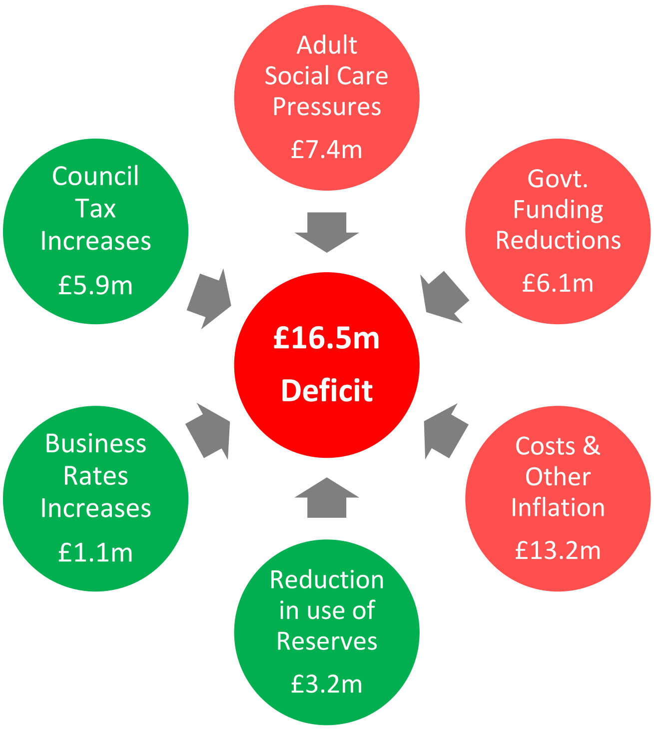
i) Further smooths the necessary savings over a longer period of time and therefore reducing the level of originally planned savings in 2019/20 by £1.5m (originally £7.0m and now revised to £5.5m)

ii) Increase the resources available through the Capital Programme, enabling the Council to put in place a more robust 3 year programme to provide improved sustainability of Council Services over the medium term

This is described more fully in the next section.

REVENUE FORECASTS 2019/20 TO 2021/22

115. A new medium term forecast has now been completed to cover the period 2019/20 to 2021/22 (i.e. after the savings relating to 2018/19 have been made and incorporating the further financial year of 2021/22). All of the financial assumptions have been comprehensively revised and a savings requirement for the new 3 year period has been estimated at £16.5m and is summarised below:



116. It is important to recognise that this forecast extends beyond the current Comprehensive Spending Review and 4 Year Settlement periods and moves two years beyond the change to the comprehensive change to the Local Government funding system which involves moving to 75% Business Rate Retention and the simultaneous implementation of the Fair Funding review. Consequently, there

remains a significant level of uncertainty surrounding the forecast for 2020/21 and 2021/22.

117. The most significant assumptions in the medium term future forecasts for the period 2019/20 to 2021/22 are described below:

- Reductions in overall general Government funding of £6.1m over the whole period, representing 19.2% but which includes an assumption that the Council will receive significant additional funding through the Fair Funding review as compensation for the additional costs associated with being an Island (this represents a risk to the forecast but remains the central assumption at this stage)

- A 1.99% increase in Council Tax for 2019/20 followed by increases of 1.99% per annum thereafter plus an average annual increase of 0.5% in the Tax Base per annum for each of the 3 years, in total yielding £5.9m

- A core assumption that the 100% Business Rate Pilot will end in March 2019 and the Council will return to the National Scheme in 2019/20 and thereafter

- An underlying zero growth assumption for changes in Business Rates from 2019/20 onwards, to reflect the uncertainty relating to appeals and mandatory reliefs

- Indexation uplifts on retained Business Rates of 2.2% for 2019/20, a further 2.4% for 2020/21 and a further 2.5% for 2021/22 in line with CPI forecasts from the Office for Budget Responsibility but offset by the £1.95m associated with the 100% Business Rate Retention scheme, which in total yields a net £1.1m over the period

- That any loss of business rates income arising from National Business Rate reduction / capping initiatives will continue to be recompensed by Government via S.31 grant funding

- Cost Pressures in Adult Social Care of £7.4m

- Other cost and inflationary pressures to £13.2m covering all pay and prices

- An assumption of a steady state for all budgets

118. The forecasts described above are the subject of a significant degree of uncertainty and particularly from 2020/21 onwards. The main causes of the uncertainty are:

    i) Whether the 100% Business Rate Retention Pilot will continue beyond 2018/19 - if it does, it could have the potential to improve the forecast by £1.95m plus a share of any further increases in Business Rates across Portsmouth, Southampton and the Isle of Wight

    ii) The outcome of the Fair Funding review in 2020/21 - this could have an estimated positive or negative effect in the range of +/- £3m depending on the extent to which the "Island Factor" and other factors such as relative demand for Social Care are recognised

119. Due to the uncertain nature of the future years' forecasts but coupled with the improving position in the Council's General Balances, it is proposed to further "smooth out" the savings requirements at a reduced and more even level and over a longer time period. This is a balanced approach appropriate to an eventuality where the Council's forecasts are either too pessimistic or too optimistic. For example, in the event that the 3 year forecast improves, the Council has not prematurely made a level of savings and service reductions that could have been avoided and it allows more time for savings initiatives to take effect. Conversely, if the forecast deteriorates, the Council will have made good progress towards the necessary savings and have sufficient General Reserves to avoid significant "spikes" in Savings Requirements in any single year in the future.

120. Crucially, this savings strategy, as described above, can only work if the Council maintains General Reserves at the levels set out in this report.

121. As previously described, the fundamental aim of the MTFS is for in-year expenditure to equal in-year income. The proposed Savings Requirements for the new 3 year period are described below have been set to accord with that aim and also with the principle of starting to restore the Council's General Reserves over time.

£16.5m Deficit - Next 3 Years

2019/20	2020/21	2021/22
£5.5m	£5.5m	£5.5m

RESERVES - 2017/18 & FUTURE FORECASTS

122. In General, maintaining adequate reserves is a measure of responsible financial management and strong financial health. They are required in order to be able to respond to "financial shocks" without having to revert to the alternative of quick and severe services reductions. Equally, they can be a vehicle to take advantage of any opportunities that may arise which are in the financial interests of the Council (for example, matched funding opportunities which could lever in additional funding for the Island). Importantly, they also enable differences between expenditure and funding levels to be "smoothed out" and managed in a planned way over time.

123. Operating at a minimum level of reserves and an over reliance on the use of reserves in any one year has the effect of delaying savings from one year and adding them to the following year's savings requirement. This would result in a level of savings required in the following year that are likely to be extremely difficult to achieve and with a corresponding drastic reduction in services. It also places the Council in a potential chaotic environment where any unforeseen financial pressures arising in the year would need to be met by equivalent further savings in the same year. This can have a de-stabilising effect on Council services, shifting the focus from driving through efficiencies, income generation and regeneration activities to one that is focused on cuts in services which can be achieved more readily within the timescales.

124. In accordance with Best Practice, a review of the Council's reserves and balances has been undertaken as part of the budget process. The review considers the Council's potential financial risks over the next few years in order to determine the prudent level of balances that should be retained, based on the Council's risk profile. It is considered, given the other reserves that are maintained for specific purposes, that the minimum General Reserves that should be maintained is £5.0m.

125. As previously described, the combination of responsible financial management and additional funding from the 100% Business Rate Retention Pilot scheme has enabled a smoother savings profile than previously planned, reducing the necessary savings in 2019/20 whilst keeping General Reserves at modest but necessary levels to support the proposed evenly phased £16.5m savings strategy.

126. The statement below gives details of the General Reserves in hand at 1 April 2017, together with the proposed use of reserves in 2017/18 and 2018/19 arising from the Budget proposals contained within this report. The forecast balances from 2019/20 onwards **assume that the £16.5m savings requirements set out in the previous section are achieved according to the profile described.**

General Reserves Forecast - 2017/18 to 2021/22					
Financial Year	Current Year £m	Budget 2018/19 £m	Forecast 2019/20 £m	Forecast 2020/21 £m	Forecast 2021/22 £m
Opening Balance	11.6	8.0	11.2	11.5	11.8
In Year Surplus / (Deficit)	(3.6)	3.2	0.3	0.3	0.0
Forecast Balance	**8.0**	**11.2**	**11.5**	**11.8**	**11.8**

127. The approved MTFS and the proposed strategy to phase the £16.5m Savings Requirement evenly over the next 3 years, describe the critical need to restore and increase General Reserves. The proposals for the Revised Budget 2017/18, Budget 2018/19 and the proposed future Savings Requirements (amounting to £16.5m) for 2019/20 to 2021/22 will achieve this aim in a fashion that is both gradual but also does not give rise to any sizeable "spike" in Savings Requirements over the period.

128. The level of balances held over the period will be higher than the minimum level recommended. This prudent approach is being taken for a number of specific reasons, which include:

- The Council is not permitted to budget for a level of General Reserves below the minimum level determined by the S.151 Officer

- The balances are predicated on total savings (as yet unidentified) of £16.5m being achieved over the next 3 years. If those savings are not made, balances would be below the minimum level by 31 March 2020.

- It is a crucial part of the strategy to mitigate against the uncertainty of the Fair Funding Review in 2020/21 in order to avoid potentially significant "spikes" in savings requirements in any single year (as previously described)

- The uncertainty over the level of funding generally (in particular retained Business Rates), demographic cost pressures for care services, inflation and interest rates in future years

- The uncommitted balance available in the Transformation Reserve of just £1.7m (see below) means there are only limited funds available to fund the implementation costs of future efficiency savings

129. In addition to General Reserves, the Council has established a Transformation Reserve of £2m. This reserve was established as one of the Council's primary vehicles to deliver savings. Often, transformation schemes aimed at significant cost reduction will be of a scale and complexity that require up front resources, especially if they are to proceed at pace. The reserve will provide a mechanism to ensure any such financial obstacles to delivery are minimised.

130. It is anticipated that due to the nature and scale of some of the savings proposals, that there will be a need to provide up-front funding from this reserve to support their delivery.

131. Maintaining the Transformation Reserve at sufficient levels to support savings delivery through "Spend to Save" and "Invest to Save" schemes is vital to the success of the MTFS and the Council's future Savings Requirements. Accordingly, a strategy for its replenishment is a necessity but the need to minimise the savings requirements is paramount. The Savings Requirement for the Council in 2018/19 at £7.5m is such that any planned contributions (which would require this Savings Requirement to increase accordingly) would likely push it to a level that puts essential Council Services in jeopardy and expose them to serious risk. It is therefore proposed that, rather than a planned replenishment from a contribution from the Revenue Budget, a proportion of any underspendings at year end (after approved carry forwards) are transferred into the Reserve.

132. The Council maintains a number of other reserves, many of a modest nature, in order to provide for known liabilities in the future. These include:

    - The Highways PFI Reserve
    - Insurance & Risk Reserve
    - Repairs and Renewals Reserve
    - Business Rate Retention Reserve

133. For the Council to meet the overall aim of its MTFS, it is important to strike the optimum balance between its key drivers of:

    - Delivering savings (income, efficiencies and service reductions) over a manageable period of time which is consistent with maintaining good quality essential services

    - Provide sufficient funding for Spend to Save and Invest to Save initiatives through the Council's Transformation Reserve

- Ensure that the Capital Programme is sufficiently funded over the medium term to stimulate the Island Economy and improve the Council's overall financial position

- Maintaining General Reserves at levels that ensure strong financial resilience and financial health to provide a stable platform for all of the above

To support this aim and ensure that maximum resources are available for the delivery of necessary savings, it is proposed that any underspendings for 2017/18 arising at the year-end (after allowing for specific carry forward requests) be transferred to the Transformation Reserve, Revenue Reserve for Capital (to increase the Capital Resources available) and General Reserves (to improve overall financial resilience) with the level of each transfer determined by the S.151 Officer.

<u>Statement of the Section 151 Officer in Accordance with the Local Government Act 2003</u>

134. Section 25 of the Local Government Act 2003 (“the Act”) requires the Chief Financial Officer to report to the Council on the following matters:

- The robustness of the estimates included in the budget made for the purposes of setting the Council Tax; and

- The adequacy of proposed financial reserves

135. Section 25 of the Act concentrates on uncertainties within the budget year rather than the greater uncertainties in future years. In the current economic climate, there continue to be uncertainties in both the current and future years i.e. beyond 2018/19. Particular uncertainties exist regarding the extent of successful appeals and mandatory reliefs which affect Retained Business Rates, Government Funding levels (including the outcome of the Fair funding Review), the ability of the Council to continue to make the necessary savings at the required scale and pace, the likely demographic cost pressures arising in demand driven services such as Adults and Children’s Social Care and the extent to which new policy changes will be funded (most notably those arising from the Care Act). All of these uncertainties increase the need for adequate reserves and balances to be maintained in current and future years.

136. A minimum level of revenue reserves must be specified within the Budget. The Council must take full account of this information when setting the Budget Requirement.

137. Should the level of reserves fall below the minimum approved sum of £5.0m as proposed in this report, either arising from an overspend in the previous year or the current year, the S.151 Officer has a duty to report this to the Council with recommendations as to the actions that should be taken to rectify the shortfall. In the most extreme of circumstances, the S.151 Officer can impose a spending freeze until a balanced budget is approved by the Council.

(a) <u>Robustness of the Budget</u>

138. In setting the Budget, the Council should have regard to the strategic and operational risks facing the Council. Some of these risks reflect the current economic climate and the national issues surrounding local authority funding levels.

139. Estimates and forecasts have been prepared to include all known significant financial factors over the medium term in order to inform spending decisions.

140. Assumptions for the Budget and forecasts for future years are considered to be sound and based on the best available information. These are set out in detail from paragraph 115 and use the following sources as their evidence base:

- Government funding as set out in the provisional settlement for 2018/19 to 2019/20

- A "no growth" assumption for Retained Business Rates from 2019/20 onwards on the basis that any income arising from growth will be offset by both appeals and reliefs

- The 100% Business Rate Retention Pilot will run for 2018/19 only

- An assumption that the current rateable value will be reduced by 4.7%, based on Government estimates of appeals arising against the 2017 rating list

- Increases in Council Tax based on what is likely to be acceptable and in particular that the Council will continue to take advantage of the flexibility to tax for Adult Social Care at 3% in 2018/19

- Inflation on Retained Business Rates and prices in accordance with inflation estimates from the Office for Budget Responsibility

- Provisions for anticipated national policy changes arising out of the Care Act based on the Isle of Wight Council's share of "relative need"[7]

- Specific provisions for increases in demand for both Adult's & Children's Social Care based on current trends

- A general provision for (as yet) unknown budget pressures

- Prudential borrowing requirements based on approved Capital schemes

- Revenue contributions to capital based on estimates of future needs

- Balances and contingencies based on a risk assessment of all known financial risks

141. Savings contained within the Budget are those where Portfolio Holders and Directors assess the confidence level of achievement is medium and above. Savings proposals will also be subject to scrutiny by Members. Responsibility and accountability for delivering the savings rests with the relevant Portfolio Holders and Directors and progress will be monitored throughout the year as part of the Budget Monitoring process.

[7] Relative need is based on the Government's "Relative Needs Formula" that is used in allocating general government funding

142. The most volatile budgets are those of Adult's and Children's Social Care. Budget provision has been made available to cover these risks both directly within the Service Budget as well as within the Council's overall contingency provision.

143. The forecasts prepared for the forthcoming and future years are robustly based and illustrate the expected costs the Council will incur in order to deliver current levels of service.

144. Portfolio Holders will be given regular budget updates by Directors to ensure that action to address any potential over or underspend is taken promptly and quarterly budget monitoring reports will continue to be presented to the Cabinet.

145. Prudential Indicators are accurately calculated based on the Council's audited Balance Sheet, notified income streams and in depth financial appraisals of proposed capital schemes. These are published and reviewed on a regular basis to ensure that the Council complies with the concepts of Affordability, Prudence, and Sustainability. The Council can only consider Prudential Borrowing for "Spend to Save Schemes", as it is currently unaffordable for any other purpose given the forecast budget deficits in 2019/20 and future years.

146. Future years' budgets will be particularly challenging due to continued funding reductions and uncertainties. The Council's forecasts plan for a savings target of £5.5m in 2019/20, £5.5m in 2020/21 and £5.5m in 2021/22.

(b) The Adequacy of Proposed Financial Reserves

147. The Council's General Reserves have been proposed at levels that are consistent with the Council's financial risks over the medium term and take account of the level of the Council's Corporate Contingency as well as other earmarked reserves that are set aside for risk events such as the Insurance Reserve, Repair and Renewals Reserve and the Business Rate Retention Reserve.

148. Reserves provide a buffer against unexpected costs such as pay awards, inflation, shortfalls in income and overspend and enable the Council to manage change without undue impact on the Council Tax or immediate reductions to services. They are a key element of strong financial standing and resilience as they mitigate risks such as increased demand and other cost pressures.

149. The level of General Reserves held will be higher than the minimum level required. This approach is in accordance with the approved MTFS in order to "smooth out" the necessary savings to meet the future forecast budget deficits in a planned and managed way. The position will continue to be reviewed and reported to Members on an annual basis.

150. The Transformation Reserve is the Council's primary vehicle for funding Spend to Save and Spend to Avoid Costs Initiatives, Feasibility Studies and redundancy costs and currently stands at just £1.7m. In order for this Reserve to continue in this capacity, it will be necessary to replenish it from any underspendings, transfers from other reserves no longer required or alternatively from the Revenue Budget in future years.

151. The Council maintains a number of other Earmarked Reserves for specific purposes, all of which are at the levels required to meet known future commitments.

152. The Council's contingency provision for 2018/19 has been set on a risk basis at £3.2m and reflects anticipated calls on the budget where the timing and value is not yet known. The use and application of the contingency will be exercised tightly.

153. At the proposed levels, the Council reserves are sufficient to accommodate the Council's financial risks and maintain the Council's overall financial health.

CAPITAL PROGRAMME 2017/18 TO 2022/23

154. The Capital Programme is a vital component of the Council's Medium Term Financial Strategy. It is proposed that the Council's overall Capital Strategy has 3 core aims as follows:

(i) A Medium Term Strategy:

- Properly aligned funding and spending (i.e. does not apply future (longer term) funding to current (near term) investment), thus leaving known and unfunded obligations in the future

- Provides funding for future years for critical Capital Investment (ensuring that in years where capital resources are limited, critical investment can continue to be made)

- Revenue Contributions to Capital are considered to "smooth out" any significant gaps between capital investment needs and capital resources available

(ii) Maximise the Capital Resources Available and the flexibility of their application:

- Setting capital funding aside for "match funding" opportunities where these are aligned with the Council's strategic objectives in order to take advantage of "free" funding

- Periodic review of contractually uncommitted schemes against newly emerging capital investment priorities

- Avoidance of ring-fencing of capital resources, except where statutory

- Use of Prudential Borrowing for "Invest to Save" Schemes

(iii) Targeted Capital Investment (prioritised categories):

- **Category 1 -** Programmes of a recurring nature that are essential to maintain operational effectiveness

- **Category 2 -** Specific schemes that:

- Have a significant catalytic potential to unlock the regeneration of the Island
- Are significant in terms of the Council strategies that they serve
- Are significantly income generating or efficiency generating
- If not implemented would cause severe disruption to Service delivery

155. As described in the MTFS, the strategy is to maximise the capital resources available and then target the investment of those resources to those areas that will both stimulate the Island Economy and improve the Council's overall financial position.

156. A comprehensive review of the Council's Capital Programme has been undertaken with the aim of maximising the capital resources available. This strategy was approved to enable the opportunity to re-assess previous priorities with current priorities, allowing each to compete with each other for funding, maximise the opportunity to make savings/increase the funding base and ultimately protect public services.

157. The review of the Council's Capital Programme has been completed in accordance with the following principles to arrive at the available capital resources:

- All contractually uncommitted capital schemes which are relying on non-ring-fenced funding have been reviewed to ensure that they remain a priority in the context of any newly emerging needs and aspirations
- Any non-statutory ring-fencing of capital resources has been removed
- All schemes that are relying on Prudential Borrowing have been reviewed and considered against the statutory guidance, where the guidance was met the prudential borrowing remained intact but where it was not financing from borrowing has been replaced with funding from capital receipts
- All underspendings against the approved Capital Programme have been brought into resources available and all overspendings have been funded from the resources available
- All capital receipts have been "pooled", and are not ring-fenced unless required to be so under by regulation

158. The total capital resources available has been determined at £10.3m with a small contingency retained to mitigate the risk of capital receipts and grants being lower than anticipated and some funding has been held back to meet unavoidable increases in costs to approved schemes and to support match funding bids for additional external funding from both the Solent Local Enterprise Partnership (LEP) and national initiatives such as the £5.0 billion Housing Infrastructure Fund and the National Productivity Investment Fund.

159. The Sources of Capital Funding available to the Council are broadly categorised as follows:

(i) Corporate Capital Resources - including all non-ring-fenced capital grants (e.g. Local Transport Plan, Education Basic Need and School Condition Funding) , capital receipts and revenue contributions

(ii) Ring-Fenced Funding - including School's Devolved Formula Capital, Community Housing Fund and some S.106 funding

(iii) Funding Passported to the Better Care Fund - this includes Disabled Facilities Grants funding which, whilst non ring-fenced, does have to be allocated to the Better Care Fund and prioritised by the Council and the Isle of Wight Clinical Commissioning Group

(iv) Prudential Borrowing - borrowing for capital schemes which meet the Prudential Code and its associated "tests" of Affordability, Sustainability and Prudence; essentially Invest to Save Schemes

<u>Corporate Capital Resources</u>

160. The new Corporate Capital Resources available for 2018/19 amount to £8.0m. In "normal" times, the annual value of Corporate Capital Resources available would amount to circa £5m per annum with an expectation from Central Government that amounts allocated for Education (circa £1.5m pa) should be allocated for School Condition and School Places. Furthermore, there is an obligation from the Department for Transport to retain a Local Transport Plan.

161. The new Corporate Capital Resources available for 2018/19 have been supplemented by a £3m contribution arising from the Council's Revenue Budget underspend in 2016/17, otherwise the available resources would have amounted to just £5.0m and be insufficient to deliver a proper medium-term Capital Programme. It is well known that the Council's needs and aspirations for Capital Investment far outweigh the resources available to it. The necessity to supplement the Capital Resources available is an explicit feature of the Council's approved MTFS in order to continue to fund essential services but equally importantly to fund Regeneration and Income Generation schemes aimed at improving the overall financial sustainability of the Council and the economy of the Island. The ability of the Council to increase the Capital Resources available is facilitated by the delegation to the S.151 Officer to transfer any available underspending arising at year end towards the Capital Programme.

162. The proposals for the use of the Council's Corporate Capital Resources are set out in Appendix D. They comprise a balanced set of proposals which:

- Ensure the medium term resilience of essential core services

- Transform services, including investment into providing re-ablement facilities, into digital technology to reduce the administrative burdens for social workers (freeing up time to support clients) and to initiate the first steps towards creating a Public Service Hub (e.g. Council, Police and the Voluntary Sector) and "One Public Service"

- Provide Educational pre-school facilities

- Investment in Leisure Facilities to expand on existing commercial activities to generate further income

- Provide investment to acquire strategic employment sites for the Island and provide enabling infrastructure to make them viable allowing existing businesses to expand and new business growth

- Provide investment for potential housing sites to provide for the growing Housing needs on the Island

- Investment in the attractiveness of the Island to maintain the core tourism economy and attract further investment

163. The proposals funded from Corporate Capital Resources in Appendix D will supplement the existing Capital Programme and provide necessary investment to both improve the Council's financial sustainability and therefore provide continuity for public services as well as providing a stimulus to the Island economy for housing, job creation and productivity improvement.

Ring-fenced Funding

164. Ring-fenced funding which is governed by the terms and conditions of the associated grant or contract has been incorporated within the Capital Programme at Appendix E.

Funding Passported to the Better Care Fund

165. The Better Care Fund is a central government initiative which creates a pooled budget arrangement between the Council and the Isle of Wight Clinical Commissioning Group. The grant funding for Disabled Facilities Grants (DFG) of £1.7m is received by the Council but is required to be pooled within the Better Care Fund (BCF). Through the local BCF planning process, the Disabled Facilities Grant can be invested in broader strategic capital projects however, the statutory duty on local housing authorities to provide aids and adaptations under the DFG to those who qualify will remain.

166. It is proposed that the following schemes as described in Appendix D are considered by the Council and the Clinical Commissioning Group through the BCF process as bids against the £1.7m of funding and that they prioritise and determine the funding for those schemes accordingly:

- Disabled Facilities Grants
- Housing repair and well-being grants (crisis works and adaptations)
- Obsolete Wightcare equipment replacement (to continue to support clients living in their own home)
- Adelaide Re-ablement facilities (to reduce hospital admissions and residential placements)
- Lift and equipment replacement for residential homes

Prudential Borrowing

167. Prudential Borrowing is what is termed “unsupported borrowing” and means that the Government does not provide any revenue support through Government Grant for the repayment of that debt (neither principal nor interest). It is available to Councils if they

can demonstrate that the borrowing complies with the Prudential Code. The code includes strict rules governing the use of Prudential Borrowing around the concepts of Affordability, Sustainability and Prudence. Affordability dictates that the Council must be able to demonstrate that it can afford the debt repayments over the long term. Given the future forecast deficits of the Council, Prudential Borrowing is only available for Invest to Save Schemes where there is a demonstrable case that the capital expenditure incurred will result in savings that at least cover either the cost of borrowing or, alternatively, where other savings can be made to cover those borrowing costs.

168. The recommended Capital Programme does not contain any additional Prudential Borrowing.

<u>Capital Programme 2017/18 to 2022/23</u>

169. The Capital Programme 2017/18 to 2022/23, including all proposed new schemes is set out in Appendix E for approval.

<u>Future Capital Obligations, Priorities and Aspirations</u>

170. The proposals for Capital Investment contained within this report complement the existing Capital Programme and provide further solidity to secure the Council's financial viability for the medium term. Nevertheless, the Council will inevitably face future obligations of a statutory nature as well as wish to further develop its priorities and aspirations for future capital investment to meet its overall aim of financial and public service sustainability.

171. Known obligations and aspirations, in line with the MTFS, for future Capital Investment once further capital resources become available include:

Statutory Obligations:

- Additional extensions / additions to schools in the primary sector in order to provide for additional school places
- Provision of additional Disabled Facilities Grants
- Requirements to improve road safety, disabled access and air quality

Improving the Island Economy:

- Further development of key employment sites such as Kingston Marina, Nicholson Road (Ryde) and Camp Hill
- Regeneration of Newport Harbour
- Coastal protection schemes to protect homes and businesses
- Improvements to road transport infrastructure as a means of supporting new business growth and productivity generally as well as the protection of the tourism economy

Public Service Transformation:

- Co-location of Health and Social Care services to provide more integrated service for residents and improve cost effectiveness

- Further Supported Living facilities for Adult Social Care clients

- Use of technology to provide greater personal independence for those with care needs

STRATEGIC CONTEXT

172. The Council's Budget for 2017/18 and 2018/19, the level of Council Tax and Capital Programme 2017/18 to 2022/23 represent the Council's detailed plan for 2018/19 and set the direction for the medium term. They are set within the context of the Council's approved Medium Term Financial Strategy.

CONSULTATION

173. The proposals set out in this report have been prepared in consultation with the Cabinet and wider members of the Conservative Group. Group Leaders of all other political parties have been provided advance sight of the potential savings opportunities for the Council and had the opportunity to discuss these and potential alternatives with the Leader and Deputy Leader of the Council.

174. The Portfolio savings amounts proposed within this report will inevitably impact on service provision. Appendix C describes the indicative savings that might (or are likely) to be made in order to achieve the proposed savings amounts. Whilst some are likely to be implemented, there will be others that require consultation and appropriate Equality Impact Assessments to be considered before any implementation can take place. For this reason, any savings proposal set out in Appendix C can be altered, amended or substituted with an alternative proposal following appropriate consultation.

175. An Island-wide budget consultation took place during December and January to help inform how to make £19m of savings over the next 3 years and levels of acceptable Council Tax. The consultation took the form of a questionnaire which was also supplemented by a series of public meetings with residents and stakeholders. The Scrutiny Committee will also review the proposals contained within this report and have the opportunity to make their representations to the Cabinet.

FINANCIAL / BUDGET IMPLICATIONS

176. All of the financial implications arising from the recommendations are contained within the body of the report and its appendices.

LEGAL IMPLICATIONS

177. The council will need to set a lawful and balanced budget and Council Tax level for 2018/19 by the statutory deadline. In developing any proposals for budget changes the necessary equality impact assessments and any consultation processes will need to be followed.

178. Section 106 of the Local Government Finance Act 1992 makes it an offence for a councillor in council tax arrears (with at least two months unpaid bills) to vote at a meeting of the council where financial matters relating to council tax are being considered. It is also an offence if any such councillor present, who is aware of the arrears, fails to disclose that they are in arrears of council tax. Members must therefore ensure that if they have such arrears, that they disclose this to the meeting.

EQUALITY AND DIVERSITY

179. The council has to comply with Section 149 of the Equality Act 2010. This provides that decision makers must have due regard to the elimination of discrimination, victimisation and harassment, advancing equalities, and fostering good relations between different groups (race, disability, gender, age, sexual orientation, gender reassignment, religion/belief and marriage/civil partnership). An equality impact assessment will be annexed to the report to Full Council in respect of the relevant proposals that arise out of these recommendations.

PROPERTY IMPLICATIONS

180. The property implications contained within this report seek to improve the sufficiency, condition and efficiency of the Council's existing property estate. Proposals for land acquisitions are intended to provide sites for regeneration and employment and will only be purchased after full and proper due diligence. Potential new build proposals will also be the subject of a full financial appraisal and proper due diligence.

OPTIONS

181. The proposed Budget for 2017/18 and 2018/19, associated Savings Requirements, use of General Reserves and the Capital Programme, have been prepared in accordance with the Council's approved Medium Term Financial Strategy. These proposals are presented as a cohesive and interrelated package of measures aimed at providing the maximum opportunity to meet the financial challenge faced by the Council. The options available within a cohesive Financial Strategy are:

A. In respect of the Revenue Budget 2018/19:

(i) Approve the recommendations set out in this report

(ii) Reduce the proposed increase in Council Tax and increase the level of savings noting that every 1% reduction in Council Tax will require an increase in savings of £776,300

(iii) Increase the use of General Reserves used in 2018/19 and reduce the level of savings accordingly, acknowledging that in doing so the level of savings in 2019/20 and future years will increase providing an uneven profile of savings which is contrary to the approved Medium Term Financial Strategy

(iv) Amend the allocation of Savings Requirements between Portfolios by reducing savings in one or more Portfolios and providing replacement savings of equivalent value in one or more other Portfolios

(v) A combination of options (ii) to (iv) above

(vi) Set a Council Tax at a level above 2.99% for General Purposes and undertake a local referendum

B. In respect of the Capital Programme 2017/18 to 2022/23 as set out in Appendix E:

(i) Approve the recommendations set out in this report

(ii) Amend the proposed "New Start" Capital Schemes by reducing / deleting proposed Capital Schemes and replacing with alternative Capital Schemes of equivalent value

(iii) Amend the proposed "New Start" Capital Schemes by reducing / deleting capital schemes and retaining the amount of Corporate Capital resources available for future Capital Programmes

RISK MANAGEMENT

182. The financial challenge is the single biggest risk to sustainable public services on the Island. Accordingly the Council needs to resolutely maximise the deployment of the resources that it does have (Revenue, Capital, Property and Staff) towards driving additional income / funding and cost savings to secure Council Services for the future. The Budget and Council Tax proposals set out in this report are part of a cohesive plan which conforms to the Council's approved Medium Term Financial Strategy. The strategy provides both structure and direction to achieve the financial challenge in a way that is aligned with the Council's corporate objectives and minimises cuts to essential services.

183. The key risk is that the Council does not approve a Revenue Budget for 2018/19 and a Capital Programme that conforms to its Medium Term Financial Strategy and as a consequence the approach to cost savings / additional income/funding is disorderly with sub optimal decisions taken which lead to greater than necessary cuts to essential services. Furthermore, that proposed amendments relating to reductions in the level of Council Tax or increases in the use of General Reserves are "unbalanced" which ultimately compromise the financial health and resilience of the Council and as a consequence jeopardise the future of Council Services.

184. The robustness of the Budget and adequacy of reserves is described in the section entitled "Statement of the Section 151 Officer in Accordance with the Local Government Act 2003".

185. Key risks relating to the Capital Programme are any amendments to the proposed programme to:

- Delete or reduce operationally essential schemes which have the potential to compromise IT system integrity and support and create serious disruption to Council Services

- Delete or reduce operationally essential schemes which have the potential to close buildings from which Council Services operate

- Delete or reduce schemes which are of a critical Health & Safety nature

- Delete or reduce schemes of a cost avoidance, income generating or regeneration nature which could compromise the future financial viability of the Council and delivery of essential services

EVALUATION

186. Option A (i) and B (i) is recommended. The Budget and Council Tax proposals set out in this report are part of a cohesive plan which conforms to the Council's approved Medium Term Financial Strategy and is consistent with the Council's Corporate Plan. In particular:

- It provides for a "smoothing" of savings over a planned period enabling the Council to maximise its operational capacity to implement initiatives at pace aimed at increasing income / funding and reducing costs and providing time for "alternative to cuts" initiatives to take effect pending the Government's "Fair Funding" review in 2020/21

- Provides additional funding of £1.95m plus a share of a £4.23m Growth & Productivity Fund for the Council through the participation in a 100% Business Rate Retention Pilot with Portsmouth City Council and Southampton City Council

- With an Adult Social Care Precept at 3%, it provides a degree of stability for Adult Social Care Services on the Island which otherwise would be put at risk

- An increase in Council Tax of 2.99% for General Purposes avoids further cuts to essential services to residents and improves the funding base for the future

- Improves the overall financial resilience of the Council

- Ensures that funding is available to enable, or "pump prime" Spend to Save (Revenue) and Invest to Save (Capital) schemes

- Maximises the Capital Resources available to the Council for investment over the medium term balanced across essential services, regeneration and invest to save purposes

RECOMMENDATION

187. It is recommended that the Cabinet endorse the following:

(a) The recommendations to the Council set out below (excluding paragraph 188(s) which is subject to the endorsement of the Audit Committee)

188. It is recommended that the Council approve the following:

(b) The revised Revenue Budget for the financial year 2017/18 and the Revenue Budget for the financial year 2018/19 as set out in the General Fund Summary (Appendix A)

(c) Any underspendings for 2017/18 arising at the year-end (after allowing for specific carry forward requests) be transferred to the Transformation Reserve, Revenue Reserve for Capital (to increase the Capital Resources available) and General Reserves (to improve overall financial resilience) with the level of each transfer to be determined by the S.151 Officer

(d) The S.151 be given delegated authority to enter into the Solent[8] 100% Business Rates Retention Pilot agreement with the Department for Communities and Local Government

(e) Any variation between the provisional and final Local Government Finance Settlement for 2018/19 be accommodated by a transfer to or from General Reserves

(f) That the level of Council Tax be increased by 2.99% for general purposes in accordance with the referendum threshold[9] for 2018/19 announced by Government (as calculated in Appendix B)

(g) That the level of Council Tax be increased by a further 3.0% beyond the referendum threshold (as calculated in Appendix B) to take advantage of the flexibility offered by Government to implement a "Social Care Precept"; and that in accordance with the conditions of that flexibility, the full amount of the associated sum generated of £2,329,000 is passported direct to Adult Social Care

(h) That the amounts set out in Appendix B be now calculated by the Council for the financial year 2018/19 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992

(i) The S.151 Officer be given delegated authority to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Police & Crime Commissioner and Parish and Town Council precepts and amend the calculations set out in Appendix B accordingly.

(j) The savings proposals for each Portfolio amounting, in total, to £7.5m for 2018/19 and continuing into future years as set out below:

8 Includes Isle of Wight Council, Portsmouth City Council and Southampton City Council

9 Council Tax increases beyond the referendum threshold can only be implemented following a "Yes" vote in a local referendum

Portfolio / Service	Savings Proposal	
	£	% Budget
Adult Social Care & Public Health*	4,063,100	7.4%
Children's Services	709,300	2.9%
Community Safety & Public Protection	409,300	5.6%
Environment & Heritage	437,100	13.6%
Infrastructure & Transport**	494,300	3.1%
Planning & Housing	207,500	5.1%
Procurement, Projects & Forward Planning	324,000	4.1%
Regeneration & Business Development	106,000	5.5%
Resources	749,400	5.7%
Grand Total	**7,500,000**	**5.6%**

*** Excludes the additional funding passported through the Adult Social Care Precept of £2.3m and additional funding for the Improved Better Care Fund of £2.2m.**

**** Excludes £19.4m of PFI Grant funding, on a Gross expenditure basis the saving amounts to 1.7%**

(k) Directors be instructed to start planning how the Council will achieve the savings requirements of £16.5m for the 3 year period 2019/20 to 2021/22 and that this be incorporated into Service Business Plans

(l) The minimum level of Revenue Balances as at 31 March 2019 be set at £5.0m to reflect the known and expected budget and financial risks to the Council

(m) Members have regard for the Statement of the Section 151 Officer in accordance with the Local Government Act 2003 as set out in paragraphs 134 to 153

(n) The Capital Programme 2017/18 to 2022/23 set out in Appendix E which includes all additions, deletions and amendments for slippage and re-phasing

(o) The "Funded Schemes" as described in Appendix D be reflected within the recommended Capital Programme 2017/18 to 2022/23 and be funded from the available Corporate Capital Resources

(p) The allocation of £1,719,905 of Disabled Facilities Grants be made to the Better Care Fund, and reflected within the recommended Capital Programme 2017/18 to 2022/23

(q) The S.151 Officer be given delegated authority to determine how each source of finance is used to fund the overall Capital Programme and to alter the overall mix of financing, as necessary, to maximise the flexibility of capital resources used and minimise the ongoing costs of borrowing to the Council

(r) That the S.151 Officer in consultation with the Leader of the Council be given delegated authority to release capital resources held back for any contingent items that might arise, and also for any match funding requirements that may be required of the Council in order to secure additional external capital funding (e.g. bids for funding from Government or the Solent Local Enterprise Partnership)

(s) That the Treasury Management Strategy for 2018/19 as endorsed by the Audit Committee attached at Appendix F

189. It is recommended that the Council note the following in respect of the Council's Budget:

(a) The Revenue Budget 2018/19 as set out in Appendix A has been prepared on the basis that the 3% tax increase for the "Social Care Precept" (amounting to £2,329,000) is passported to Adult Social Care in order to provide for otherwise unfunded budget pressures including the full costs of the new National Living Wage and demographic pressures

(b) In the event that the additional flexibility of the "Social Care Precept" and associated 3% tax increase (amounting to £2,329,000) is not taken, then further savings will need to be identified within Adult Social Care

(c) In general, any reduction from the overall 5.99% Council Tax increase proposed will require additional savings of £776,300 for each 1% reduction in order for the Budget 2018/19 to be approved

(d) The Revenue Forecasts for 2019/20 onwards as set out in paragraphs 115 to 118 and Appendix A

(e) The estimated Savings Requirement of £16.5m for the three year period 2019/20 to 2021/22, for financial and service planning purposes, be phased as follows:

Financial Year	**In Year Savings Requirement £m**	**Cumulative Saving £m**
2019/20	5.5	5.5
2020/21	5.5	11.0
2021/22	5.5	16.5

(f) The Transformation Reserve held to fund the upfront costs associated with Spend to Save Schemes and Invest to Save Schemes holds a very modest uncommitted balance of £1.7m and will only be replenished from an approval to the transfer of any underspends at year end

(g) The Council Tax base for the financial year 2018/19 will be **52,998.0** [item T in the formula in Section 31 B(1) of the Local Government Finance Act 1992, as amended (the "Act")].

(h) The Council Tax element of the Collection Fund for 2017/18 is estimated to be a surplus of £443,000 which is shared between the Isle of Wight Council (90.2%) and the Police & Crime Commissioner (9.8%)

(i) The Business Rate element of the Collection Fund for 2017/18 is estimated to be a deficit of £530,000 which is shared between the Isle of Wight Council (50%) and the Government (50%)

(j) The Retained Business Rate income[10] for 2018/19 based on the estimated Business Rate element of the Collection Fund deficit as at March 2018, the Non Domestic Rates poundage for 2018/19 and estimated rateable values for 2018/19 has been set at £45,699,573

(k) The Equality Impact Assessment at Appendix G

APPENDICES ATTACHED

190. The following appendices are attached:

- Appendix A - General Fund Summary
- Appendix B - Council Tax 2018/19 (calculated by the Council for the financial year 2018/19 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992)
- Appendix C - Indicative Savings 2018/19
- Appendix D - New Capital Schemes starting in 2018/19
- Appendix E - Capital Programme 2017/18 to 2022/23
- Appendix F - Treasury Management Strategy 2018/19 (To follow for Full Council only)
- Appendix G - Equality Impact Assessment (To follow for Full Council only)

BACKGROUND PAPERS

191. The following background papers have been relied upon in preparing this report.

- The Council's approved Medium Term Financial Strategy can be found at: https://www.iwight.com/Meetings/committees/mod-council/19-10-16/Paper%20B.pdf

Contact Point: Chris Ward - Director of Finance,
☎ 02392 834423 e-mail chris.ward@portsmouthcc.gov.uk

CHRIS WARD

Director of Finance and Section 151 Officer

COUNCILLOR DAVID STEWART
Leader of the Council

COUNCILLOR STUART HUTCHINSON
Deputy Leader
Cabinet Member for Resources

[10] Including the Collection Fund deficit of £265,000, S.31 Grants of £6,244,536, transfer to the "Growth Pool" of £3,314,541m and transfer from the "Growth Pool" of £1,648,935m and "Top Up" grant from Government of £2,333,900.