Purpose: For Decision

Committee report

Committee	**CABINET**
Date	**THURSDAY, 14 FEBRUARY 2019**
Title	**BUDGET & COUNCIL TAX SETTING 2019/20 & FUTURE YEARS FORECASTS**
Report of/to	**THE LEADER OF THE COUNCIL AND THE DEPUTY LEADER AND CABINET MEMBER FOR RESOURCES**

EXECUTIVE SUMMARY

1. The key proposals within this report recommend a Budget for 2019/20 that provides for £5.5m of savings in line with the Council's Medium Term Financial Strategy, an inflation based Council Tax increase of 2.99% and a forecast for the 3 year period beyond 2019/20 will require a further £13.5m in savings.

2. In summary, the proposals:

   - ❖ Seek to re-invest the savings made form strong financial stewardship in the current year into meeting the needs of our communities
   - ❖ Invest in the critical essential Care Services that are relied upon by our most vulnerable residents
   - ❖ Make the necessary funding available to continue with programmes to modernise and transform the Council's service delivery
   - ❖ Prioritise capital investment to support the Council's economic ambitions for the Island as well as improving its core public services to residents

3. The proposals also seek to make a £4m contribution from the Revenue Budget, to support Capital Investment into Council Services aimed at safeguarding the delivery of frontline services over the next 3 years when capital funding is expected to be severely constrained and revenue funding is exposed to unprecedented uncertainty (see paragraph 7 below).

4. Approval is also sought to borrow up to £25m to support the Administration's Regeneration aspirations for viable schemes which improve services and/or employment and deliver a financial return by way of savings or income.

5. Overall the new Capital Investment plans put forward by the Administration amount to £43m providing a good balance between safeguarding the delivery of Council Services over the next 3 years whilst also providing a substantial injection to the Island economy.

6. Together, the suite of Budget proposals also enable the Council to further "smooth out" the necessary savings requirements to reduced levels, but only made possible by the approval of £5.5m of savings in the forthcoming year.

7. There remains considerable funding uncertainty from 2020/21 due to a comprehensive overhaul of the Local Government funding system. This will determine a new formula methodology which will set each Local Authority's baseline funding level. It is expected that, with numerous other changes, the new formula will recognise the unique costs of providing public services on an Island. Alongside this, a new system for retaining future Business Rate growth / loss will be implemented, taking away all existing growth (amounting to £5m for the Isle of Wight Council (IOWC) and re-distributing that growth, nationally according to relative need (rather than where it was generated). For that reason, the Council's future forecast deficits could reasonably be expected to vary between +/- £3m.

8. During this unprecedented level of uncertainty, it is imperative that the Council continues to follow its Medium Term Financial Strategy (MTFS), planning for savings of £4.5m per year and retaining reserves at the levels proposed in this report to retain the necessary financial resilience to be able to respond in all circumstances.

9. An Executive Summary of these key points and others is set out below.

EXECUTIVE SUMMARY

<u>Context</u>

- ❖ Since 2011/12 savings of £76m will have already been made (circa. 40% of controllable spend)
- ❖ Government funding reductions have been the driving force behind the need to make £16.5m in savings over the period 2019/20 to 2021/22
- ❖ Adults and Children's Services represent 59% of controllable spend, provide services to the most vulnerable, experience the greatest cost pressures, are the hardest in which to manage demand and have historically received significant protection from savings - resulting in proportionally higher savings across other Council Services
- ❖ The Autumn Budget has provided some short-term relief for cost pressures in Adults and Children's Social Care, but announced for 2019/20 only
- ❖ The Council's Medium Term Financial Strategy delivers necessary savings through income generation, economic regeneration and efficiency measures before considering service reductions as a last resort

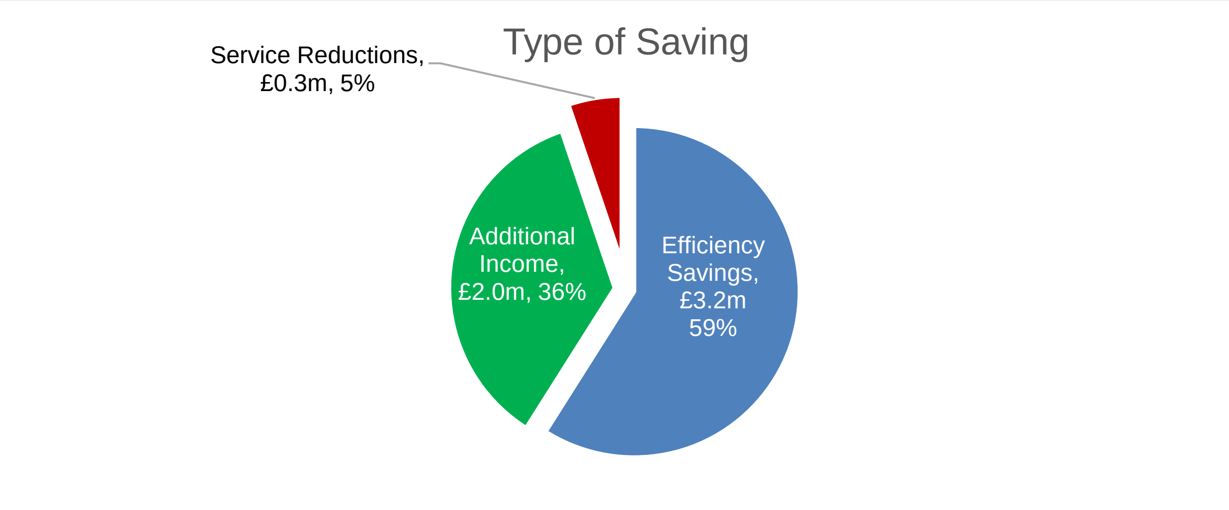
<u>Revised Budget 2018/19</u>

- ❖ A forecast further saving in 2018/19, allowing £3m to be used to support future Capital Investment

EXECUTIVE SUMMARY (Cont'd)

Budget 2019/20

- Planned in accordance with Medium Term Financial Strategy, containing an interdependent package of measures to achieve financial balance and sustainability over the medium term (see below)
- Council continues to benefit from the annual £7m reduction in debt repayment costs which ceases in 2022/23 by which time, if the planned savings are achieved, the Council will no longer need to rely on that source of funding to balance its budget
- Accommodates Government funding reductions of £3.5m
- Incorporates £5.5m of Savings based on the Savings Options consulted upon but, in response to feedback:
    - Some proposals for Car Parking charge increases have been withdrawn
    - The proposal for reduced opening hours at Lynbottom tip has been withdrawn
    - The proposal for an increase in Wightcare charges has been withdrawn
    - More options have been made available for Beach hut owners leasing / licensing arrangements
- The £5.5m of Savings are analysed as follows:



- Additional £1.4m for Adult Social Care to continue the Winter Pressures programme supporting hospital discharges, accommodate the increase in the number of clients that can no longer afford to fund their own care and to contribute to the additional costs associated with the 4.9% increase in the National Living Wage
- Additional £0.7m for Children's Social Care to deal with the rising costs of Looked After Children
- A Council Tax increase of 2.99% (at an inflation based level)
- A Council Tax discount scheme is introduced for Care Leavers, recognising the Council's role as a Corporate Parent, reducing their charge to zero
- The successful application to be a 75% Business Rate Retention pilot provides additional funding of £1m to be used to support essential Capital Investment, making a total contribution to Capital Investment of £4m (see above)
- A contribution of £2m to "top up" the Transformation Reserve to £3.8m (previously £4m)
- Funding to progress:
    - Camp Hill Development - due diligence and outline feasibility costs
    - Medina Bridge - outline feasibility costs
    - Undercliff Drive - public consultation on next steps

EXECUTIVE SUMMARY (Cont'd)

Future Forecast - 2020/21 to 2022/23

- New forecast for the new 3 Year Period (now extended to 2022/23) is a £13.5m deficit
- New forecast is subject to unprecedented uncertainty due to the forthcoming Comprehensive Spending Review, Fair Funding Review and the 75% Business Rate Retention Scheme and could vary by +/- £3m
- Proposed that Savings are further "smoothed out" and phased evenly at £4.5m in 2020/21 followed by two further tranches of £4.5m each year thereafter
- Balanced approach to savings if the forecast proves to be too pessimistic or too optimistic. Savings of £4.5m p.a. ensure that for any improvement in the forecast, the Council has not prematurely made a level of savings that could have been avoided and for any deterioration good progress towards the necessary savings will have been made

Reserves

- The minimum level of Reserves required by the Council based on its revised risk profile is £7m which it cannot fall below
- A planned contribution to Reserves of £1.1m in 2019/20 with Reserves rising to £12.2m but necessary to provide for the transfer of £0.5m in Reserves in 2020/21 to the new Combined Fire Authority
- Planned Reserves at £12.2m represent just 2.9% of total gross expenditure
- Reserves fall back to originally planned levels of £11.9m by 2022/23, providing a buffer of £4.9m over the current minimum required level.

Capital Programme

- Total proposed new Capital Investment of £43m comprising:
    - £25m borrowed for viable Regeneration schemes which can demonstrate that the borrowing costs can be funded from additional income / savings to the Council
    - £4.2m of direct regeneration funding to increase affordable housing as well as for improving employment site viability
    - £4.7m for Schools Maintenance
    - £2.3m upgrade to facilities at Adelaide and Gouldings
    - £1.5m for Disabled Facilities Grants, helping people to remain in their homes
    - £1.1m for essential dredging and quay works at Newport Harbour as part of the overall regeneration proposals

Conclusion

- Balanced Budgets for both 2018/19 and 2019/20
- Council's financial health is stable and improving
- Future uncertainty for Local Government funding remains a substantial risk

BACKGROUND

10. The primary purpose of this report is to set the Council's overall Budget for the forthcoming year 2019/20 and the associated level of Council Tax necessary to fund that Budget. The report also seeks approval to the Capital Programme for 2018/19 to 2023/24.

11. The proposed Budget for 2019/20 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.

12. The report makes recommendations on the level of Council spending for 2019/20 and the level of Council Tax in the context of the Council's Medium Term Financial Strategy with its stated aim 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

13. At the Council meeting in February 2018, the Council approved a savings requirement of £5.5m for the financial year 2019/20. Since then, the Council has received the final Local Government Finance Settlement for 2019/20 which was broadly in line with the Council's forecasts with the exception of an additional £2.1m for Adults and Children's Social Care but announced for 2019/20 only.

14. This report also provides a comprehensive revision of the Council's rolling 3 year future financial forecast for the new period 2020/21 to 2022/23 (i.e. compared to the existing forecast covering 2019/20 to 2021/22, this forecast now replaces the forecast for the previous 3 year period).

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

    (a) The challenging and uncertain financial climate facing the Council in 2019/20 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 2019/20

(e) The Business Rate income for 2019/20 and future years and the financial effect of participating in the 75% Business Rate Pooling arrangements with Portsmouth City Council and Southampton City Council

(f) The Council Tax Base and recommended Council Tax for 2019/20 alongside changes to Council Tax Policy

(g) The proposed Revenue Budget for 2019/20

(h) The financial forecast for the new 3 year period and consequent Savings Requirements for 2020/21, 2021/22 and 2022/23

(i) Estimated General Reserves over the period 2018/19 to 2022/23

(j) The forecast Collection Fund balance as at 31 March 2019 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 2018/19 to 2023/24

ECONOMIC & FINANCIAL CONTEXT

16. Whilst the picture for the national public finances is improving with lower than forecast levels of total debt and overall debt as a proportion of Gross Domestic Product falling, it remains to be seen whether this will filter through into additional funding for local Councils for both day to day revenue spending and capital investment.

17. The key announcements from the Autumn Budget for Local Government are summarised below:

- £240m of additional Adult Social Care funding for 2018/19 to support Winter Pressures
- £240m continuation of the Adult Social Care (Winter Pressures) funding into 2019/20
- £410m for Adults and Children's Social Care in 2019/20 and states *"…… to ensure that adult social care pressures do not create additional demand on the NHS. Local councils can also use it to improve their social care offer for older people, people with disabilities and children"*
- £55m of additional funding for Disabled Facilities Grant in 2018/19;
- £420m in 2018/19 to tackle pot holes and other minor road highways works;
- £400m of in-year capital funding allocations to schools in 2018/19 to spend on equipment and facilities;
- An additional £84m of Children’s Services funding over 5 years to help more children stay at home safely with their families, but across only 20 councils;

- For 2 years up until the next Revaluation in 2021 all retail premises with a Rateable Value below £51,000 will have their bills reduced by one third (expected to benefit 90% of retail properties);

- Introduction of 100% business rate relief for public lavatories in 2020/21;

- £675m to be provided across the period to 2023/24 through a new "High Streets Fund" to assist with rejuvenation of High Streets and, in particular, changing unused business and commercial property into residential accommodation;

- Additional funding for the Housing Infrastructure Fund of £500m will be provided, taking the total fund to £5.5bn;

- The government will abolish the future use of PFI and PF2, saying there is compelling evidence that it does not deliver value for taxpayers or genuinely transfer risk to the private sector.

18. The implications from the Autumn Budget itself are not generally expected to materially alter the Council's expected revenue funding from Central Government over the medium term, upon which the Council's forecasts are based. However, the announcement related to Adults and Children's Social Care of £650m nationally (£2.1m for IOWC), but announced for 2019/20 only, will help to alleviate the existing and emerging financial pressures in those areas in the short term but unless confirmed into future years will not have any impact on future budget deficits. Other factors such as inflation generally, the "living longer" population and the increase in the National Living Wage (4.9%), all of which are on-going, will impact on the Council's forecasts for future years beyond 2019/20.

19. The Local Government Finance Settlement for 2019/20 was announced alongside 2 further consultations of the Fair Funding Review and the 75% Business Rate Retention Scheme. The Local Government Finance Settlement for 2019/20 itself is in line with expectations, with continued reductions to Council funding, but since this was anticipated it does not affect the Council's future forecasts. The Fair Funding Review and the 75% Business Rate Retention Scheme however, have the potential to have a significant effect on the Council's future funding and therefore its overall financial forecasts. This is described in more detail in later in the report.

20. A Comprehensive Spending Review is planned for the forthcoming year and this will set the overall envelope for the Public Sector, and alongside the Local Government Finance Settlement for 2020/21, will provide much more certainty for Council funding over the subsequent 4 year period.

21. This report includes a new financial forecast for the next 3 year period covering both expenditure and funding to 2022/23 after taking account of the £5.5m savings proposed in this report and incorporating the further financial year of 2022/23. Taking the £5.5m of savings proposed for 2019/20 together with the savings in previous years will mean that the Council will have achieved £82m of savings and efficiencies equating to circa 40% of the Council's controllable spending.

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

22. Set against the context of having delivered savings equating to circa. 40% of the Council's controllable spend and an existing forecast of a further £16.5m of savings to find over the next 3 years, the Council approved an MTFS in October 2016 to guide the Council towards financial sustainability.

23. This continuing 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.

24. The overall aim of the MTFS is illustrated below:

"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

25. The 6 Themes of the Medium Term Financial Strategy 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**

26. 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, "Create Financial and Operating

Capacity to Transform" remains 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 in the future is placed at risk.

REVISED BUDGET 2018/19

27. The original Revenue Budget approved by the Council in February 2018 was £148,149,225.

28. The Cabinet has received regular quarterly Budget Monitoring reports on the 2018/19 Budget throughout the year which have consistently reported an improving financial position. The current position for 2018/19 (end Quarter 3) is a forecast saving against the budget of £3.0m (or 2.0%).

29. The forecast improvement relates to:

Forecast Savings / Additional Funding:

- Corporate Items - relating to savings in loan interest payments, VAT refunds, Housing Benefit over payment recovery and reduced levels of contingency forecast to be required - £4.3m
- A redistribution from Government of surplus funds held to provide "safety net payments" for Council's suffering business rate losses - £0.5m
- Additional income from the Council's Leisure Centres - £0.4m

Forecast Pressures:

- Additional costs of Looked After Children - £1.3m
- Floating Bridge - £0.7m
- Fire Service £0.3m

30. Arising from the forecast £3m improvement against the original budget, the Administration propose to make a Revenue Transfer to the Capital Programme. It is vital that the Council has a robust fully funded 3 year Capital Programme to provide reasonable sustainability for Council Services over a period of unprecedented uncertainty for the future of Council funding. This additional funding will enable the Council to invest in its care facilities for residents, facilitate affordable housing, continue to support regeneration and provide reasonable assurance that the infrastructure requirements for the delivery Council Services will be viable over the next 3 years.

31. The Original Budget has now been revised to £149,096,200 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 2018/19 to 2019/20 but have a neutral effect on the Council's overall financial position
- Transfers from the Council's contingency provision (e.g. floating bridge) which has a neutral impact on the overall budget.

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

THE LOCAL GOVERNMENT FINANCE SETTLEMENT FOR 2019/20

33. The Local Government Finance Settlement is the term used to describe the main non-ring-fenced Revenue and Capital grant funding allocations from Government.

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

35. The Government published the Settlement on 29th January 2019 and it is in line with the accepted 4 Year Settlement which reflects the following:

- A reduction in general funding (the equivalent of Revenue Support Grant and other grants) as part of the 4 Year Settlement of £3.5m
- An additional allocation for 2019/20 only for Adults and Children's Social Care of £2.1m

36. The £3.5m reduction in funding is in line with expectations and has not had any further effect on the Council's position for 2019/20 or the overall 3 year budget deficit. The additional £2.1m for 2019/20 only is available for otherwise unbudgeted costs and inflationary pressures in 2019/20. Unfortunately it is not confirmed for future years and therefore not available to fund those costs on an ongoing basis.

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

- Revenue Support Grant - There is no change to the distribution methodology for 2019/20 although "negative RSG" has been removed
- Council Tax:
  - o The basic referendum principle of a 3% increase is confirmed
  - o Adult Social Care Precept remains intact (6% increase over the 3 years 2017/18 to 2019/20 - the IOWC has already taken advantage of the full 6%).
  - o Police Council Tax can increase by a maximum of £24 (which for Hampshire would equate to a 13.5% increase in their share of the Council Tax)
- Proposals for new 75% Business Rates Pilots in 2019/20 have been approved for 15 areas and the Solent application was successful
- A £180m balance on the national Levy Account will be distributed based on need (this amounts to £0.5m and was distributed in the current year and forms part of the overall forecast £3.0m saving for the year). At this quantum it is not significant at a local level but is an important principle for the future funding of Local Government
- Two consultation papers have been published on the Fair Funding Review and Business Rates Retention) to come into effect in 2020/21. This is important to all Council's and is one of the largest risks within the Council's future financial forecasts. The consultations are described below:
  - o The Fair Funding review (i.e. the review of the ‘needs element' embedded with the Revenue Support Grant and the Business Rates Retention system) covers the structure of the funding formula, the formulas, weightings and data to be used in the calculations. The Council has made strong representations that the "Island Factor" needs to be introduced into the formula to recognise the unique costs of providing public services on an Island; this now features in the latest release of the consultation. The Fair Funding Review also covers how the level of Council Tax raised locally will be calculated for the purposes of reducing the need for Central Government funding. Finally the basis of any transitional funding that may be required for those local authorities suffering significant reductions in funding is also included.
  - o The 75% Business Rate Retention Scheme covers: Resets (i.e. how long any growth / loss in business rates will be retained before it is reset to a new baseline), safety nets, levy, tier splits and hereditaments to be held on the local and central lists as well as how to best deal with appeals and an alternative model of business rates retention.
- The New Homes Bonus scheme remains unaltered (described below)

38. 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") before any New Homes Bonus (NHB) will be paid (i.e. 0.4% growth will need to be achieved before any NHB funding will be paid)
- Payments made for 4 years from 2019/20 and thereafter

39. Given that the 2019/20 Local Government Finance Settlement is broadly in line with the Council's forecasts upon which the minimum £5.5m savings requirement was based, and subject to the approval of the Council Tax proposals contained within this report, there is no need to seek any further savings beyond those approved at the February 2018 Council meeting.

40. 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 - 2019/20 & FUTURE FORECASTS

41. 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[1] below which retained Business Rates will not fall (set at £29.8m for 2019/20)

42. 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.

43. 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.

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[1] Known as the Baseline Funding Level, set in 2013/14 and increased by inflation each year

75% Business Rate Retention Pilot (BRR Pilot) - 2019/20

44. The Council has been successful in its application to become a 75% Business Rate Pilot for 2019/20 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 also provides for a "Safety Net" across the Pool whereby the Pool cannot fall below 95% its "Baseline Funding Level" (compared to 92.5% in the national 50% Business Rate Retention Scheme). It does however, provide the opportunity for the 3 Councils to retain 75% 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

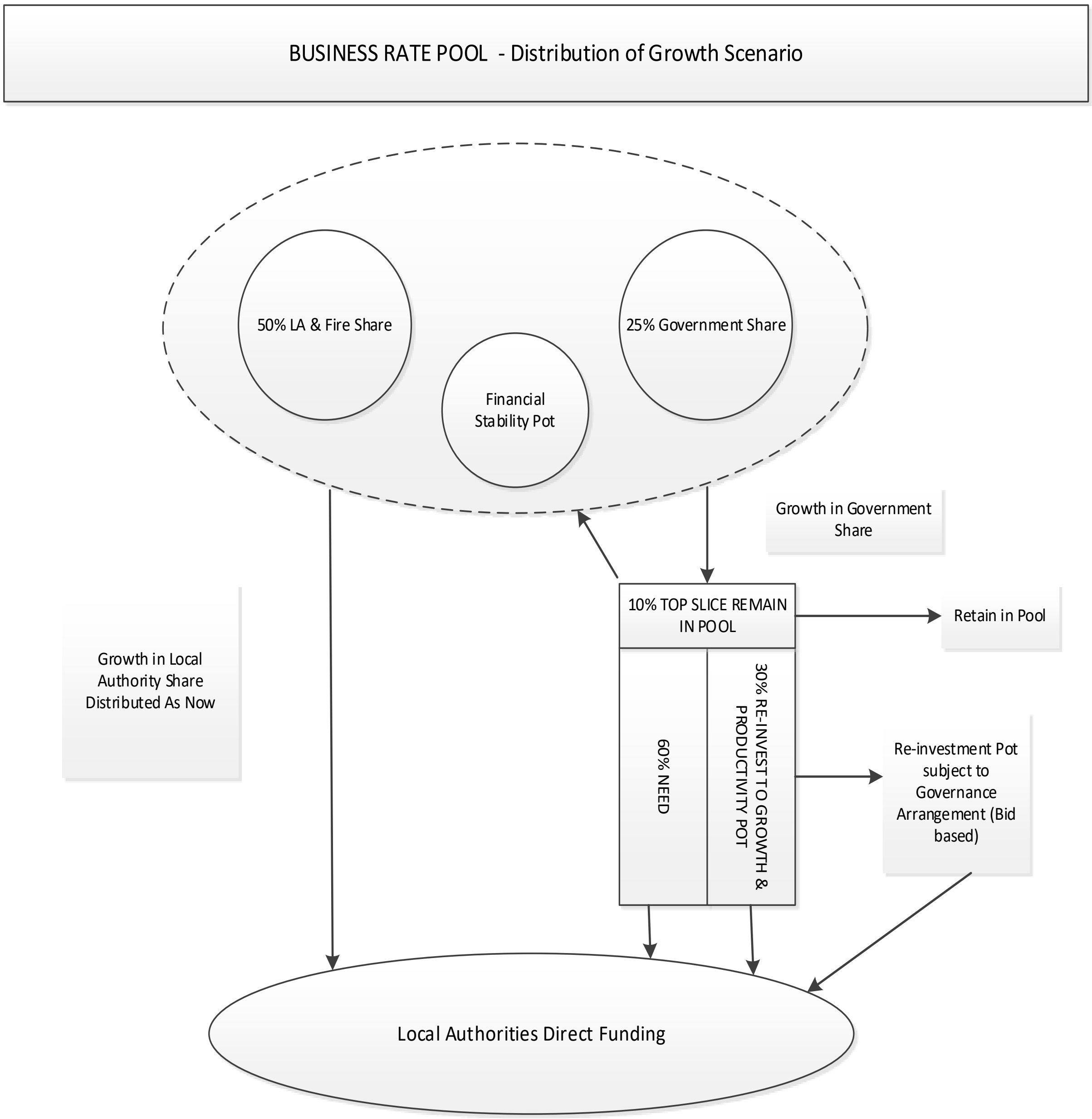
45. The pilot scheme is guaranteed for 1 year only and will be replaced by a national 75% Business Rate Retention Scheme in 2020/21. The Solent Authorities are expected to be able to elect whether they wish to remain in a pooled arrangement, sharing risks and rewards. Retained growth however, will be "Reset" and be from 2020/21 onwards (compared to the current arrangement which retains all growth at 75% but from 2013/14 onwards)

46. The 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 £7.6m.

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

    i) Half of the Government's share of any growth (estimated at £7.6m) 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 £1.0m 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 £2.2m 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 £0.7m across all Councils to be available to offset any potential future business rate loss

This is set out diagrammatically below:



48. As mentioned, the Business Rates Growth Pool is essentially half of that element of Business Rate growth that previously was returned to Government. In cash terms, every additional 1% increase in Business Rate Growth will result in additional funding to the Pool (to be distributed between the 3 Authorities as previously described) of £630,000 which would be allocated as follows:

- £378,000 directly to the Solent Authorities (£86,000 to IOW)
- £189,000 to the Growth & Productivity Pot
- £63,000 to the Financial Stability Pot

49. The estimated Growth Pool is significant for 2019/20 because it covers the growth for the total period 2013/14 to 2019/20 (rather than just 2018/19 to 2019/20) amounting to 13% across all 3 Councils.

50. In overall terms, it is estimated that the IOW Council will receive the following additional sums / benefits as a direct consequence of the 75% Business Rate Retention pilot:

    i) Direct allocation for general use £1.0m

    ii) A share of the "Growth & Productivity Pot" which amounts in total to £2.2m

    iii) A distribution from the "Financial Stability Pot" amounting to £0.7m in total in the event of future Business Rate reductions

51. In total, for 2019/20, Retained Business Rates are estimated at £41.5m[2] (now reflecting the retention of 75% Business Rates) and which includes a deficit relating to previous years of £0.5m arising from lower than anticipated business rate income. Future estimated Business Rates have been assumed to increase by the rate of inflation only (as estimated by the Office for Budget Responsibility).

52. 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").

53. 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[3]) 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 - 2019/20 & FUTURE FORECASTS

Council Tax Amount 2019/20

54. Council Tax currently represents almost 55% 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.

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[2] Includes transfer to the "Growth Pool" of £2.0m and transfer from the "Growth Pool" of £1.0m plus the "Top Up" of £7.7m, S.31 Grants of £6.0m and a collection fund deficit of £0.5m

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

55. Council Tax for the average Council Tax payer on the Isle of Wight (Band C) currently amounts to £1,537.89 (excluding parish precepts), of which £1380.15 (89.7%) 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.

56. In response to inflationary pressures faced by Councils (e.g. Consumer Price Index (CPI) 2.3% and Retail Price Index (RPI) 3.2%), the Local Government Finance Settlement for 2019/20 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.

57. As described more fully later in this report, the actual level of inflation for 2019/20 is £1.3m higher than had been originally forecast. This is principally due to the pay award being £0.3m higher than forecast, rising costs of Children's Social Care of £0.2m, RPI / CPI (upon which contracts and other costs are linked) estimated to cost an additional £0.2m plus the uplift in the National Living Wage of 4.9% (for provider services, especially in the independent care sector) has added a further cost burden of £0.6m. 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 £831,000.

58. To avoid these additional cost pressures having a significant detrimental impact on the overall financial resilience of the Council in 2019/20 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 £831,000 for every 1% reduction in Council Tax.

59. Given the extent of the Council's financial challenge to find £5.5m of savings, the upward inflationary pressure generally, the demographic pressures in Adult Social Care and the impact of the 4.9% increase in the National Living Wage on Care Services, it is proposed that the Council Tax be increased by 2.99% as set out in Appendix B, representing 79p per week for a Band C tax payer (before any applicable discounts).

60. The Council's future forecasts for the period 2020/21 to 2022/23 have been estimated on the following basis of a 1.99% rise each year.

Council Tax Base 2019/20

61. The Council Tax Base (i.e. the number of Band D equivalent properties paying the full Council Tax) has been determined as **53,508.0** for 2019/20.

Collection Fund Balance (Council Tax Element) 2018/19

62. 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.

63. For 2018/19, it is estimated that there will be a surplus on the Collection Fund of £333,000 which will be shared in proportion to the 2018/19 precepts and distributed to the preceptors as follows:

COLLECTION FUND SURPLUS - 2018/19		
Preceptor	**Distribution**	
	£	**%**
Isle of Wight Council	300,000	90.2%
Hampshire Police & Crime Commissioner	33,000	9.8%
Total Surplus 2018/19	**333,000**	**100.0%**

The Isle of Wight Council Share of the surplus of £300,000 is factored into the overall Council Tax income for 2019/20.

Total Council Tax Income 2019/20 & Future Years

64. Considering the Council Tax increase, Council Tax Base and surplus on the Collection Fund, the total Council Tax income for 2019/20 is estimated at £85,868,400.

65. 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 £91,748,900 by 2022/23 and is based on the following assumptions:

- Annual increases in the amount of Council Tax of 1.99% per annum for 2020/21 and thereafter
- Modest growth in the Council Tax Base of 0.35% per annum over the period

Changes to Council Tax Policy 2019/20 - Care Leavers Discount Scheme

Care Leavers Discount Scheme:

Care leavers are a particularly vulnerable group for Council Tax debt, and as they move into independent accommodation and begin to manage their own budget, it can be a challenging time, exacerbated if they fall behind with council Tax.

It is proposed that, as a corporate parent, Care Leavers up to the age of 25, are granted a discretionary discount of up to 100% of the Council Tax liability. This will help our Care Leavers with financial support whilst they develop independent lives and life skills and is expected to be a cost to the Council of circa £20,000 per annum.

The financial support is proposed to be implemented by way of a write off under the delegated authority of the S.151 Officer as set out in Appendix I and be incorporated into the Council's Financial Regulations.

REVENUE BUDGET 2019/20

Overall Strategy

66. 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. This is consistent with being a financially sustainable Council providing quality public services.

67. The original forecast deficit of £16.5m ("rolled on a further year" and revised later in this report) was planned to be met in 3 tranches of £5.5m over the next 3 years.

68. The Council's Medium Term Financial Strategy, contains an interdependent package of measures to achieve financial balance and sustainability over the medium term which includes:

    - Targeted draw down of the £40m "over provision" for debt repayments over a 5 year period (see paragraphs below)
    - Gradual repair of the Council's General Reserves to levels that can continue to be used to "smooth out" necessary savings over time as well as providing financial resilience for uncertainty and potential "financial shocks"
    - A financial framework that supports responsible spending and removes financial obstacles to the delivery of strong Spend to Save schemes

69. At present the Council is still benefiting from the £7m per year draw down from amounts deemed to be set aside in advance for the repayment of debt (i.e. the overprovision in total amounting to £40m), which is commonly referred to as the "debt repayment holiday". This annual benefit will end in 2022/23 by which time,

if the planned savings are achieved, the Council will not need to rely on that source of funding to balance its budget.

70. The overall MTFS and Savings Requirement of £16.5m over the next 3 years has been specifically designed to align the exhaustion of the £40m overprovision with achieving a future balanced budget (no longer requiring the £7m annual contribution).

71. The Council's approved MTFS and Savings Requirements also accommodates the repair of its General Reserves 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.

72. As approved in the Council's MTFS, the proposals within the Budget for 2019/20 will provide for General Reserves to be above the minimum level in order to be available to be able to manage and respond to risk and have the ability to "smooth out" future years savings to more manageable levels.

Budget Consultation

73. In formulating the budget 2019/20, the Administration set out a list of savings options in its report to the Cabinet on the 8th November 2018. This provided for an effective consultation period of 3 months over which time comments, proposals and alternative proposals have been invited. Response have been invited through a dedicated email address and also through meetings with representatives from Town and Parish Council's, the Business Community and the General Public. In addition, the Council published an online survey which ran from November to the 23rd January.

74. Email responses have been received from 24 residents alongside written submissions from Shanklin and Ventnor Town Councils and Northwood Parish Council. In general, the responses recognised the difficulties due to diminishing resources and increasing demand and were concerned about the impact of this on the most vulnerable in our society. Alternative means of generating income were suggested, but many commented that a balance needed to be maintained to ensure that increasing charges did not impact negatively on tourism and businesses.

75. Comments were also received around making better use of the voluntary and community sectors to provide or support more services and building on positive experiences around community provision of services such as libraries and public toilets.

76. There were 427 responses to the online survey. The main themes arising out of that survey are summarised below:

- 86% of respondents agreed that the council should charge for those services that users choose to utilise such as leisure centres, beach huts and harbours

- 85% of respondents voted for an increase in council tax to pay for priorities with 37% supporting an increase of 3% or more.
- Respondents prioritised increased spending in regeneration and business development which is similar to last year

77. Free form comments submitted as part of the online survey focused on parking with many suggestions about new charges, uniformity of charging across the island and opportunities to increase income. Equally, there were concerns about the impact of charges on local businesses and the economy. There was also a preference for increasing Council Tax or Business Rate income by increasing charges for holiday lets and second homes. Increasing investment in regeneration was a repeated suggestion as well as investing in new housing and converting empty properties. As in previous years, effective lobbying of central Government for additional funding was also a focus.

78. Feedback from Town and Parish Councils was consistent with the responses from the online survey.

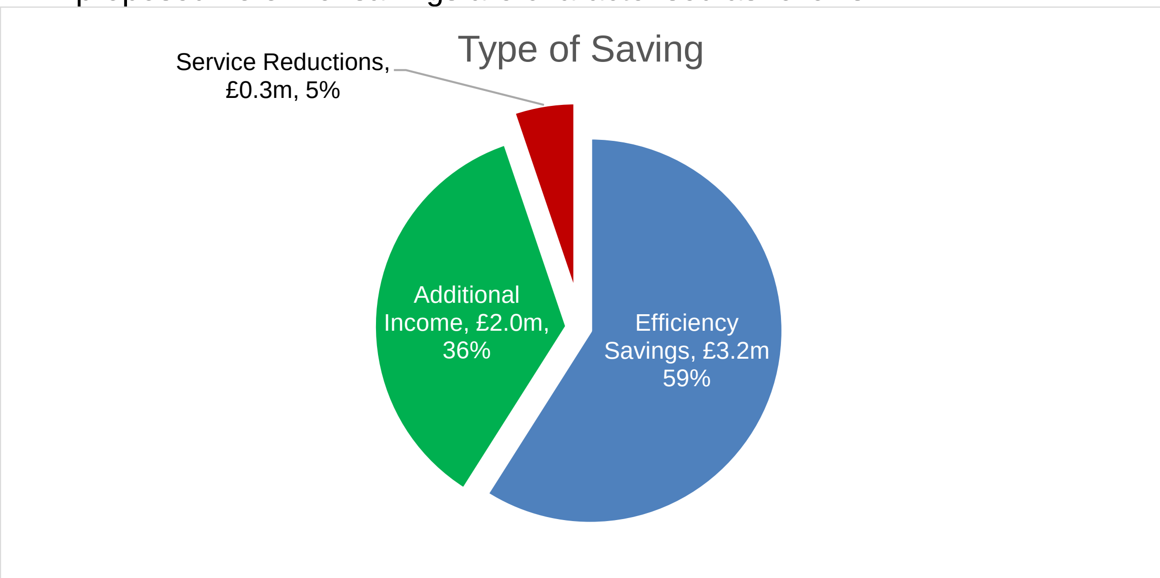
79. The Budget was discussed with the Business Reference Group on 17 January 2019. The meeting was generally supportive of the approach being taken by the Council as set out in its MTFS with most discussion focussed on preparing for Brexit and investment into the Island economy.

80. The open meeting on 30 January was attended by 15 members of the public. Discussions ranged between the importance of Social Care, Housing, investing in the Island and resolving any remaining issues with the floating bridge.

81. The proposed Budget for 2019/20 has been prepared with both regard to the Budget Consultation exercise and the approved MTFS.

Savings Proposals

82. The Administration's savings proposals are focussed on an "Avoidance to Cuts" approach in line with the Medium Term Financial Strategy. In overall terms, the proposed £5.5m of savings are characterised as follows:



Description of Saving	Savings	
Efficiency Savings (little or no reduction in Services)	£3.2m	59%
Additional Income	£2.0m	36%
Service Reduction	£0.3m	5%
Total	**£5.5m**	**100%**

83. For 2019/20, Efficiency Savings account for 59% of the proposed savings, with 36% relating to Additional Income and just 5% Service Reduction measures.

84. The savings proposals are broadly aligned with the response from the Budget Consultation with the residents and stakeholders. Since the original options were proposed, significant amendments and alternatives now feature in the final proposals of the Administration. A summary of the overall proposals and changes is described below:

- 95% of savings delivered through income generation and efficiencies
- Lower than average savings for both Adults and Children's Social Care (but with additional funding also for particular cost and budget pressures amounting to £1.4m and £0.7m, respectively - see paragraphs that follow)
- Significant changes to Car Parking charging proposals in response to representations made by the business community and Town and Parish Councils, especially in Newport and Ryde
- Withdrawal of the proposal for inflation based increases for Wightcare services
- Withdrawal of the option to reduce opening hours at Lynbottom Household Waste Recycling Centre
- Further options for Beach Hut occupiers to be able to exercise greater choice about how they might retain their beach hut

85. Many of the changes described above have been accommodated by additional income received from the further acquisition of commercial (investment) properties and the additional income that they will generate for the Council.

86. Additionally, the proposals within the Capital Programme (described later in this report) allow for investment into Regeneration activity of up to £29m subject to business case viability.

87. The savings proposals for 2019/20, by Portfolio / Service, are set out below for approval.

Portfolio / Service	Controllable Budget	Savings Proposal	
	£	£	%
Adult Social Care, Public Health & Housing Needs*	66,717,800	2,070,500	3.1%
Children's Services*	24,443,400	515,500	2.1%
Community Safety & Public Protection	10,993,000	275,000	2.5%
Environment & Heritage	11,244,000	274,400	2.4%
Infrastructure & Transport**	18,317,500	1,205,600	6.6%
Leader & Strategic Partnerships	457,300	0	0.0%
Planning & Housing Renewal	2,609,300	79,700	3.1%
Procurement, Projects, Forward Planning & Waste	5,793,300	130,000	2.2%
Regeneration & Business Development	1,394,200	33,000	2.4%
Resources	17,262,900	916,300	5.3%
Grand Total	**159,232,700**	**5,500,000**	**3.5%**

*** Excludes the additional funding passported through to Adult Social Care of £1.4m (which if included would result in an overall reduction of 1%) and the additional funding for Children's Services of £0.7m (which if included would result in an overall increase of 0.7%)**

**** Excludes £19.4m of PFI Grant funding, on a Gross expenditure basis the saving amounts to 3.2%**

88. Inevitably, there are a number of financial risks contained within the proposals for making savings of the scale of £5.5m on the back of making over £76m in savings over the past 8 years. The risks are unavoidable. For those risks with the highest likely impact such as Children's Services and Adult Social Care, mitigation strategies and contingency provision have been made.

89. 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.

90. 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.

Summary of Proposed Revenue Budget 2019/20

91. The proposed Budget for 2019/20 has been prepared to include the following:

Spending 2019/20:

- Inflationary costs and other cost pressures amounting to £5.9m
- Proposed Savings of £5.5m as described later in this report and set out in Appendix C
- An additional £1.4m for Adult Social Care to continue the Winter Pressures programme supporting hospital discharges, accommodate the increase in the number of clients that can no longer afford to fund their own care and to contribute to the additional costs associated with the 4.9% increase in the National Living Wage
- An additional £0.7m for Children's Social Care to deal with the rising costs of Looked After Children
- A contribution of £2m to "top up" the Council's Transformation Fund which has reduced from £4m to a current uncommitted balance of £1.8m, having been allocated to spend to save and service transformation activities including the Highways PFI, the senior management re-structure, Children's Social Care and the set up costs for the new housing development company
- The additional £1m of "one-off" funding from the 75% Solent BRR Pilot used to make a further £1m contribution to the Capital Programme (adding to the £3m proposed to be set aside in 2018/19 described previously)
- Allocations within the Council's Corporate Contingency to allow the Council to progress the following potential opportunities:
    - Camp Hill - to enable the Council to undertake proper due diligence and business case evaluation to evaluate the prospects for the Council's "One Public Service" strategy as well as additional housing
    - Medina Bridge - to enable the Council to undertake an outline feasibility study into the potential for it construction and financing
    - Undercliff Drive - to cover the cost of a public consultation to help inform how the Council should proceed

Funding 2019/20:

- Funding reductions from Government of £3.5m (of which £3.4m is routed through the Retained Business Rates system of "Top Ups and Tariffs" - see below)
- Reduction in retained Business rates associated with the move from the current 100% Business Rate Retention Pilot to the 75% Business Rate Retention Pilot amounting to £1.0m (note that if the Council was not within the new 75% Business Rate Retention Pilot then Business Rates would reduce by a further £1.0m)

- Changes arising from the increase in Business Rates due to the inflationary uplift in the multiplier
- A reduction in retained Business Rates[4] of £4.1m, (of which £1.0m arises as a direct result of the move from a 100% BRR Pilot to a 75% BRR Pilot and £3.4m relates to the reduction in Revenue Support Grant but routed through the BRR system as described above)
- Overall "one-off" deficit on the Collection Fund attributable to the Council amounting to £0.2m, representing a surplus on Council Tax of £0.3m and a deficit on Business Rates retained of £0.5m
- An increase in Council Tax of 2.99% for General Purposes amounting to £2.5m (amounting to 79p per week for the average Band C Taxpayer on the Island)
- An increase in the Council Tax base equivalent to 510 Band D properties yielding £0.8m

92. The combination of the spending and funding proposals in the proposed Budget for 2019/20 above enables the Council to make a contribution to General Reserves in 2019/20 of £1.1m. This has been deliberately planned to provide for the forthcoming transfer of £0.5m of Reserves to the new Combined Fire Authority but crucially to further enable the necessary future savings to be "smoothed out" over a longer period.

93. The proposed Budget for 2019/20 accommodating the Council's £5.5m of savings, funding changes and other cost changes as described above is £150,332,200. It represents an increase of £1,236,000 (0.8%) compared to the Revised Budget for the current year of £149,096,200 and provides for a contribution to General Reserves of £1.1m.

REVENUE FORECASTS 2020/21 TO 2022/23

94. A new medium term forecast has now been completed to cover the period 2020/21 to 2022/23 (i.e. after the savings relating to 2019/20 have been made and incorporating the further financial year of 2022/23).

95. The new medium term forecast takes account of the £5.5m savings being achieved in 2019/20, comprehensively revises the remaining £11m that was estimated to be required over the following 2 years and makes a forecast for the additional year 2022/23. It is now estimated that the savings required for the new 3 year period 2020/21 to 2022/23 will be £13.5m as described in the paragraphs that follow.

96. The previous medium term forecast estimated that residual savings of £11m would be required after the first tranche of £5.5m in 2019/20 had been achieved. The following 2 years now require savings of £9m to be made, representing an overall £2m improvement in the forecast deficit.

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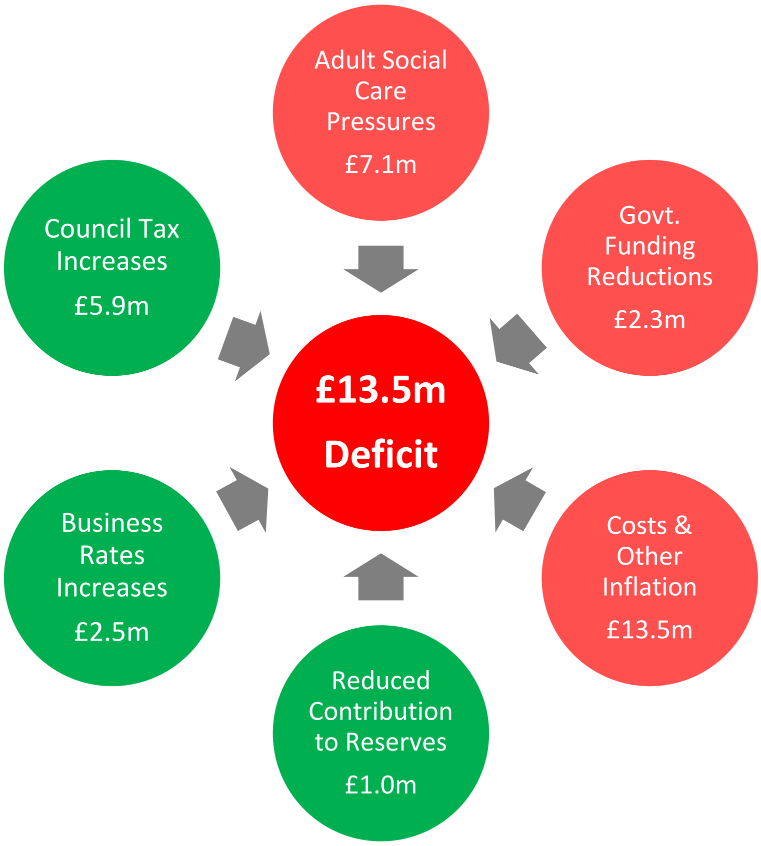
[4] This includes a deficit brought forward from one year to the next on the Collection Fund of £0.5m

97. The most significant changes that will affect Local Government and the Council through the period 2020/21 to 2022/23 are as follows:



98. It is important to recognise that this forecast extends beyond the Comprehensive Spending Review planned for the coming year and the Fair Funding Review and the 75% Business Rate Retention Scheme due to be implemented in 2020/21. It also moves 2 years beyond these events making broad assumptions at the macroeconomic level pending any indicative information at the local level. Consequently, there remains a significant level of uncertainty surrounding the £13.5m forecast deficit which could realistically vary between +/- £3m.

99. The most significant assumptions in the medium term future forecasts for the period 2019/20 to 2022/23 are described below:

<u>Spending:</u>

- Other cost and inflationary pressures to £13.5m covering all pay and prices (assuming pay awards of 2.0% per annum, specific contract inflation and CPI / RPI increases in line with the forecasts of the Office for Budget Responsibility, all culminating in a composite rate of inflation averaging at circa 3.0%)
- Cost Pressures in Adult Social Care of £7.1m
- An assumption of a steady state for all budgets

Funding:

- Reductions in overall general Government funding of £2.3m over the whole period, 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 per annum from 2020/21 onwards, in total yielding £5.9m
- Non-recurrence of the current £0.3m surplus of the Council Tax element of the Collection Fund surplus
- Indexation uplifts on retained Business Rates of 2.5% for 2020/21, a further 2.5% for 2021/22 and a further 2.6% for 2022/23 in line with forecasts from the Office for Budget Responsibility; but reduced by the £1.0m additional sum associated with the 75% Business Rate Retention Pilot (guaranteed for 1 year only) and the one-off deficit on the Collection Fund (£0.5m). The sum of all these factors is an increase of £2.5m.
- An underlying zero growth assumption for changes in Business Rates from 2019/20 onwards, to reflect the uncertainty relating to appeals and mandatory reliefs
- 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
- An assumption that the New Homes Bonus will be subsumed within the new Fair Funding Review and an implied continuation of funding at current levels

100. It is proposed that the Council takes an evenly managed approach to addressing the £13.5m of savings required over the next 3 years by phasing those savings evenly, as set out below, in order to provide reasonable time for plans to be the necessary proposals to be prepared and implemented.

£13.5m Deficit - Next 3 Years		
2020/21	2021/22	2022/23
£4.5m	£4.5m	£4.5m

101. Due to the uncertain nature of the future years' forecasts it is imperative that the Council continues to plan for £4.5m of savings per annum as well as maintaining sufficient General Reserves. 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. 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.

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

103. In summary, the overall forecast budget deficit and therefore savings requirement has been reduced for both 2020/21 and 2021/22 (by £1m per year) and the forecast has been “rolled on” to now include a deficit in 2022/23 of £4.5m. The overall forecast budget deficit and savings requirement for the 3 year period 2020/21 to 2022/23 is £13.5m. Importantly, this level of budget deficit can only be maintained if the Council approves the proposed £5.5m of savings as well as the increase in Council Tax of 2.99% for 2019/20.

RESERVES - 2018/19 & FUTURE FORECASTS

104. 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.

105. 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 results 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.

106. 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. The Council has not changed its minimum level of General Reserves for a number of years and particular risks that support an increase in General Reserves include:

- The current relatively low level of General Reserves representing just 2.6% of Gross Expenditure (but which will rise to 2.9% at £7m)
- The increasing susceptibility to budget pressures given the magnitude of savings that have been made in the past (i.e. £76m)

- The volatility of the Business Rate Retention system (previously described) both now and in the future
- Potential for reduced Council Tax collection rates associated with the reduced level of support provided by the Local Council Tax Support scheme
- Potential liabilities for some substantial disputes against the Council
- The rising number of care clients that can no longer afford their care ("Capital Depleters") which will fall to be funded by the Council
- The general rise in the "living longer" population and the additional pressures that this places on Adult Social Care services
- General growth rate in Children Looked After

107. It is considered, given the weight of financial risk being carried by the Council and the other reserves that are maintained for specific purposes, that the minimum General Reserves that should be maintained is £7.0m.

108. As previously described, the combination of proposals for the 2019/20 Budget has enabled a contribution to Reserves in 2019/20 of £1.1m. This is necessary, in part to fund the transfer of £0.5m of reserves to the potential new Combined Fire Authority in 2020/21 as well as to facilitate "smoothing out" the Council's necessary savings over a further year whilst keeping forecast reserves at originally planned, but modest levels, of £11.9m by 2022/23.

109. The statement below gives details of the General Reserves in hand at 1 April 2018, together with the proposed use of reserves in 2018/19 and 2019/20 rising from the Budget proposals contained within this report. The forecast balances from 2020/21 onwards **assume that the £13.5m savings requirements set out in the previous section are achieved according to the profile described.**

General Reserves Forecast - 2018/19 to 2022/23					
Financial Year	Current Year £m	Budget 2019/20 £m	Forecast 2020/21 £m	Forecast 2021/22 £m	Forecast 2022/23 £m
Opening Balance	7.9	11.1	12.2	11.7	11.8
In Year Surplus / (Deficit)	3.2	1.1	(0.5)	0.1	0.1
Forecast Balance	**11.1**	**12.2**	**11.7**	**11.8**	**11.9**

110. The approved MTFS and the proposed strategy to phase the £13.5m Savings Requirement evenly over the next 3 years, describe the critical need to restore General Reserves over time. The proposals for the Revised Budget 2018/19, Budget 2019/20 and the proposed future Savings Requirements (amounting to £13.5m) for 2020/21 to 2022/23 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.

111. 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 £13.5m being achieved over the next 3 years. If those savings are not made, balances would be at the minimum level by 31 March 2021.
- The Council is carrying significant risks associated with its responsibilities for Education, Children's Social Care and Adults Social Care
- 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 £3.8m (see below) means there are only limited funds available to fund the implementation costs of future efficiency savings

112. In addition to General Reserves, the Council has established a Transformation Reserve with contributions of £4m but which currently has an uncommitted balance of £1.8m as previously described. 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.

113. It is also anticipated that due to the nature and scale of some of the savings proposals in 2019/20, that there will be a need to provide up-front funding from this reserve to support their delivery.

114. 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. The proposed £2m "top up" contribution to the Reserve is vital if this Reserve is to continue to deliver against its intended purpose.

115. The Council's future forecasts plan for the periodic "top up" of this Reserve however depending upon the demands placed on the Reserve, this may be insufficient. It is advisable therefore that should any further savings be made by year end, that consideration be given at that time to any necessary replenishment.

116. 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

117. 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 further savings for 2018/19 that are made by 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>

118. 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

119. 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 2019/20. 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 and the 75%

Business Rate Retention scheme), 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

120. 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.

121. Should the level of reserves fall below the minimum approved sum of £7.0m 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 controls until a balanced budget is approved by the Council.

(a) Robustness of the Budget

122. 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.

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

124. 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 under the Section entitled "Revenue Forecasts 2020/21 to 2022/23" and use the following sources as their evidence base:

- Government funding as set out in the provisional settlement for 2019/20
- A "no growth" assumption for Retained Business Rates from 2020/21 onwards on the basis that any income arising from growth will be offset by both appeals and reliefs
- The 75% Business Rate Retention Pilot will run for 2019/20 only
- An assumption that the current rateable value (for businesses) 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 within expected referendum limits
- 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"[5]
- 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

125. 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.

126. 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.

127. 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.

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

129. 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 2020/21 and future years.

130. Future years' budgets will be particularly challenging due to continued funding reductions and uncertainties. The Council's forecasts plan for a savings target of £4.5m in 2020/21, £4.5m in 2021/22 and £4.5m in 2022/23.

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

(b) The Adequacy of Proposed Financial Reserves

131. 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.

132. Reserves provide a buffer against unexpected costs such as pay awards, inflation, shortfalls in income and overspends 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.

133. 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.

134. The Transformation Reserve is the Council's primary vehicle for funding Spend to Save and Spend to Avoid Costs Initiatives and Feasibility Studies and currently stands at just £1.8m. In order for this Reserve to continue in this capacity, it will be necessary to replenish it from any further savings, transfers from other reserves no longer required or alternatively from the Revenue Budget in future years.

135. 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.

136. The Council's core contingency provision for 2019/20 has been set on a risk basis at £3.5m 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.

137. 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 2018/19 TO 2023/24

Overall Strategy

138. 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 enable the Council to meet its statutory responsibilities, stimulate the Island Economy and improve the Council's overall financial position.

139. The development of a capital strategy considers investments that will be made in the acquisition, creation, or enhancement of tangible or intangible fixed assets, in order to yield benefits to the council for a period of more than one year. It also

considers how stewardship, value for money, prudence, sustainability and affordability will be secured. The capital strategy therefore has 3 core aims:

Aim 1 - To support a Medium Term Outlook

- Allocating known resources to future years for critical capital investment, ensuring that in years where capital resources are limited, critical investment can continue to be made
- Aligning known resources and spending, ensuring that we do not apply uncertain or forecast resources to current investment, thus leaving potentially unfunded obligations in the future
- Smoothing out any significant gaps between capital investment needs and capital resources available by utilising contributions from revenue

Aim 2 - To Maximise the Capital Resources available and the flexibility of their application

- Setting aside capital funding for "match funding" opportunities, where these are aligned with the Council's strategic objectives in order to take advantage of "free" funding
- Reviewing contractually uncommitted schemes against newly emerging capital investment priorities
- Avoiding ring-fencing of capital resources, except where such ring fencing is statutory
- Using prudential borrowing for "invest to save" schemes, or schemes which generate income

Aim 3 - Targeted Capital Investment

- Annual review of all contractually uncommitted capital schemes which rely on non-ring-fenced funding are reviewed to ensure that they remain a priority in the context of any newly emerging needs and aspirations
- Investment in programmes of a recurring nature that are essential to maintain operational effectiveness
- Invest in specific schemes that:
    - o Have a significant catalytic potential to unlock the regeneration of the Island
    - o Are significant in terms of the Council strategies that they serve
    - o Are significantly income generating or efficiency generating
    - o If not implemented would cause severe disruption to service delivery

<u>Capital Resources</u>

140. Capital resources available have been reviewed and the amount available to be allocated for 2019/20 and future years have been determined as £42.7m but with

£25m assumed from Prudential Borrowing and only available subject to a comprehensive business case and financial appraisal approved by the S.151 Officer which can demonstrate with a good certainty that any borrowing costs can be met from reliable long term income streams or savings to the Council. Additionally, a small contingency has been 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.

141. The total capital resources available to the Council are described below:

Corporate Capital Resources

142. This includes all non-ring-fenced capital grants (e.g. local transport plan, education basic need and school condition funding), capital receipts and revenue contributions and amounts to £14.8m. The resources available are over £9m higher than the Council's routine annual allocations as the have been supplemented by the following:

- A £3m revenue contribution arising from the Council's additional revenue budget savings made in 2017/18 and transferred under the delegated authority of the S.151 Officer
- A further £3m revenue contribution recommended as part of the proposals within this report for the Revised Budget 2018/19
- A planned £1m contribution from the Revenue Budget 2019/20 which was built into the previous budget forecast
- A £1m revenue contribution recommended as part of the proposals within this report for the Budget 2019/20 and arising from the direct additional funding received from the 75% BRR pilot
- Bringing forward expected grant funding from 2020/21 in respect of allocations for School's Maintenance, Special Educational Needs and Disabilities amounting to £2.1m in total to enable a proper 2 year programme of works to be developed and progressed. The necessary consequence of this being that those funding streams will not be available in future years and funding will be less.

Ring-fenced Capital Funding

143. Ring-fenced Funding includes funding passported to the Better Care Fund (from Disabled Facilities - described below), School's Devolved Formula Capital, the Priority Schools Building Programme and some S.106 funding which is governed by the terms and conditions of the associated grant or contract. The new ring fenced resources available for 2019/20 and future years' amount to £2.9m.

144. Funding Passported to the Better Care Fund which, whilst not ring-fenced, is targeted at disabled facilities grants and wider social care programmes and is required to be prioritised by the Council and the Isle of Wight Clinical Commissioning Group. This is a central government initiative which creates a pooled budget arrangement between the Council and the Isle of Wight Clinical Commissioning Group and £1.9m will be received by the Council in 2019/20.

Prudential Borrowing

145. Prudential borrowing is available for "Invest to Save" schemes only where those savings must accrue directly to the Council on a sustained basis. Prudential Borrowing is governed by the Prudential Code and its associated tests of affordability, sustainability and prudence. 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).

146. The Affordability test 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 (i.e. cost reduction or additional income) that at least cover either the cost of borrowing. Also, that those savings accrue directly to the Council and will be available on a sustained basis over the lifetime of any borrowing.

147. The Council's Corporate Plan and MTFS, place Regeneration and improving the Island Economy at the heart of their ambitions for the Island. There are a number of Regeneration schemes at varying stages of business case development and still subject to considerable due diligence and financial evaluation. It is proposed therefore that in order to progress in a planned and timely manner, that approval in principle if provided to borrow up to £25m for Regeneration schemes that prove themselves to be robust and viable; any final approval to borrow being subject to the approval of the S.151 Officer of a satisfactory final business case and financial appraisal that demonstrates with good certainty that savings will accrue directly to the Council that at least cover the cost of borrowing on a sustained basis over the lifetime of any borrowing.

Capital Investment Proposals ("New Starts") - 2019/20

148. Proposals for the allocation of the Council's overall Capital Resources of £42.7m are set out in Appendix D. They comprise a balanced set of proposals which:

- Ensure the medium term resilience of essential core services
- Continue support to schools and education facilities
- Invest in adapting people's homes, supporting the Council's Care Close to Home strategy
- Transform Council services, including investment into providing adults' re-ablement and learning disability facilities
- Provide substantial investment into the Island Economy to:
    - Acquire strategic employment sites for the Island providing enabling infrastructure where necessary to make them viable allowing existing business to emerge and expand
    - Providing affordable homes for key workers and residents in general

- Investment in digital technology to support agile working and further progressing the aspirations to be recognised as a Digital Island and a Digital Council.

Proposed Capital Programme 2018/19 to 2023/24

149. The overall Capital Programme 2018/19 to 2023/24, including all existing schemes which have been reviewed and considered as a continuing priority, and proposed new schemes is set out in Appendix E for approval. In order to provide adequate funding for the proposed Capital Programme, it is recommended that:

    i) A £3m revenue contribution proposed as part of the proposals within this report for the Revised Budget 2018/19 be made

    ii) The originally planned £1m contribution from the Revenue Budget 2019/20, which was built into the previous budget forecast, be made

    iii) A further £1m revenue contribution recommended as part of the proposals within this report for the Budget 2019/20 and arising from the direct additional funding received from the 75% BRR pilot be made

Future Capital Obligations, Priorities and Aspirations

150. 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.

151. 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, housing and regeneration sites
- Developing the Digital Island
- 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:

- Developing the aspirations for "One Public Service" for the Island - providing integrated and co-ordinated strategy and delivery of public services across different public bodies
- Developing the Digital Council
- 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

152. The scale of the funding required for these obligations and aspirations is such that it far outstrips the annual capital funding which may be available. With core capital funding of circa £5m, there is a hugely significant shortfall ("Capital Gap") to be met. Furthermore, of this £5m of available funding, £2.6m is ring-fenced for Disabled Facilities Grants and Devolved Formula Capital for Schools. From the residual £2.4m, there is an expectation from Central Government that amounts allocated for Education (circa £1.0m p.a) should be allocated for School Condition and there is an obligation maintain a Local Transport Plan from the annual £1.4m provided from Department for Transport. The overall implication being that there is virtually no routine annual funding available for Capital Investment beyond those items described above.

153. Given the scale of the "Capital Gap" described above, the necessity to supplement the Capital Resources available remains an explicit feature of the Council's approved MTFS so that the Council can continue to fund essential services but also fund Regeneration and Income Generation schemes aimed at improving the overall financial sustainability of the Council and the economy of the Island. For this reason, it is recommended that the S.151 Officer be given delated authority to transfer all or part of any further savings made in 2019/20 arising at the year-end to supplement the Capital Resources available for future years.

STRATEGIC CONTEXT

154. The Council's Budget for 2018/19 and 2019/20, the level of Council Tax and the Capital Programme 2018/19 to 2023/24 represent the Council's detailed plan for 2019/20 and set the direction for the medium term. They are set within the context of the Council's approved Corporate Plan and Medium Term Financial Strategy.

CONSULTATION

155. The proposals set out in this report have been prepared in consultation with the Cabinet and wider members of the Conservative Administration. The advance publication of the savings options in November has provided opposition

Councillors and the public in general to comment and make alternative suggestions.

156. 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.

157. An Island-wide budget consultation took place over a 3 month period from during November through to the end of January to help inform how to make £16.5m of savings over the next 3 years and levels of acceptable Council Tax. The consultation took the form of a detailed public report setting out savings options and published in October 2018 supplemented with a questionnaire and a series of 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

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

LEGAL IMPLICATIONS

159. The council will need to set a lawful and balanced budget and Council Tax level for 2019/20 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.

160. 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

161. 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

162. 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

163. The proposed Budget for 2018/19 and 2019/20, 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 2019/20:

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 £830,800

iii) Increase the use of General Reserves used in 2019/20 and reduce the level of savings accordingly, acknowledging that in doing so the level of savings in 2020/21 and future years will increase providing an uneven profile of savings which is contrary to the approved Medium Term Financial Strategy and the Council's financial resilience will reduce at a time of unprecedented uncertainty for the future of Local Government funding

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% and undertake a local referendum

B. In respect of the Capital Programme 2018/19 to 2023/24 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

164. 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.

165. The key risk is that the Council does not approve a Revenue Budget for 2019/20 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.

166. 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".

167. 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

168. Option A (i) and B (i) are 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
- Reduced the overall Savings Requirements for future years from £5.5m per annum to £4.5m per annum
- Improves the overall financial resilience of the Council at a time of unprecedented uncertainty for the future of Local Government Funding, enabling the Council to avoid more immediate and deeper savings in the event of a pessimistic outcome
- Provides for a balanced budget once the Council's £7m per annum saving on debt repayments comes to an end in 2022/23
- An increase in Council Tax of 2.99% avoids further cuts to essential services to residents and improves the funding base for the future
- Ensures that sufficient funding is available to enable, or "pump prime" Spend to Save (Revenue) and Invest to Save (Capital) schemes as one of the primary vehicles to address future savings requirements
- Provides for the £0.5m transfer of General Reserves to the potential new Combined Fire Authority
- Provides substantial additional funding from the Revenue Budget to the Capital Programme in order to meet the Council's essential statutory obligations and its aspirations to transform public services and stimulate the Island Economy
- 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

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

(a) The recommendations to the Council set out below

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

(a) The revised Revenue Budget for the financial year 2018/19 and the Revenue Budget for the financial year 2019/20 as set out in the General Fund Summary (Appendix A)

(b) Any further savings made in 2018/19 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

(c) The S.151 be given delegated authority to enter into the Solent[6] 75% Business Rates Retention Pilot agreement with the Department for Communities and Local Government

(d) That the level of Council Tax be increased by 2.99% for general purposes in accordance with the referendum threshold[7] for 2019/20 announced by Government (as calculated in Appendix B)

(e) That the amounts set out in Appendix B be now calculated by the Council for the financial year 2019/20 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992

(f) 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

(g) The Council Tax Care Leavers Discount Scheme as set out in Appendix I be implemented by way of a write off under the delegated authority of the S.151 Officer and be incorporated into the Council's Financial Regulations

(h) The savings proposals for each Portfolio amounting, in total, to £5.5m for 2019/20 and continuing into future years as set out on the next page:

Portfolio / Service	Controllable Budget	Savings Proposal	
	£	£	%
Adult Social Care, Public Health & Housing Needs*	66,717,800	2,070,500	3.1%
Children's Services*	24,443,400	515,500	2.1%
Community Safety & Public Protection	10,993,000	275,000	2.5%
Environment & Heritage	11,244,000	274,400	2.4%
Infrastructure & Transport**	18,317,500	1,205,600	6.6%
Leader & Strategic Partnerships	457,300	0	0.0%
Planning & Housing Renewal	2,609,300	79,700	3.1%
Procurement, Projects, Forward Planning & Waste	5,793,300	130,000	2.2%
Regeneration & Business Development	1,394,200	33,000	2.4%
Resources	17,262,900	916,300	5.3%
Grand Total	**159,232,700**	**5,500,000**	**3.5%**

*** Excludes the additional funding passported through to Adult Social Care of £1.4m (which if included would result in an overall reduction of 1%) and the additional funding for Children's Services of £0.7m (which if included would result in an overall increase of 0.7%)**

**** Excludes £19.4m of PFI Grant funding, on a Gross expenditure basis the saving amounts to 3.2%**

(i) Directors be instructed to start planning how the Council will achieve the savings requirements of £13.5m for the 3 year period 2020/21 to 2022/23 and that this be incorporated into Service Business Plans

(j) The minimum level of Revenue Balances as at 31 March 2020 be set at £7.0m to reflect the known and expected budget and financial risks to the Council

(k) 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

(l) The Capital Programme 2018/19 to 2023/24 set out in Appendix E which includes all additions, deletions and amendments for slippage and re-phasing

(m) The new Capital Investment Proposals ("New Starts") - 2019/20 set out in Appendix D be reflected within the recommended Capital Programme 2018/19 to 2023/24 and be funded from the available Capital Resources

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[6] **Includes Isle of Wight Council, Portsmouth City Council and Southampton City Council**

[7] **Council Tax increases beyond the referendum threshold can only be implemented following a "Yes" vote in a local referendum**

(n) The allocation of £1,855,697 of Disabled Facilities Grants be made to the Better Care Fund, and reflected within the recommended Capital Programme 2018/19 to 2023/24

(o) The following revenue contributions to capital be made in order to fund the proposed new Capital Investment Proposals ("New Starts") - 2019/20 set out in Appendix D:

(i) A £3m revenue contribution proposed as part of the proposals for the Revised Budget 2018/19

(ii) The originally planned £1m contribution from the Revenue Budget 2019/20, which was built into the previous budget forecast

(iii) A further £1m revenue contribution as part of the proposals for the Budget 2019/20 and arising from the direct additional funding received from the 75% BRR pilot

(p) That Prudential Borrowing of up to £25m for Regeneration schemes that prove themselves to be robust and viable be approved in principle; with final approval to borrow being delegated to the S.151 Officer following the completion of a satisfactory final business case and financial appraisal that demonstrates with good certainty that savings will accrue directly to the Council that at least cover the cost of borrowing on a sustained basis over the lifetime of any borrowing.

(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)

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

(a) The Revenue Budget 2019/20 as set out in Appendix A has been prepared on the basis of a 2.99% increase in Council Tax, any reduction from the overall 2.99% Council Tax increase proposed will require additional savings of £830,800 for each 1% reduction in order for the Budget 2019/20 to be approved

(b) The Revenue Forecasts for 2020/21 onwards as set out in the section entitled "Revenue Forecasts 2020/21 to 2022/23" and Appendix A

(c) The estimated Savings Requirement of £13.5m for the three year period 2020/21 to 2022/23, for financial and service planning purposes, be phased as follows:

Financial Year	In Year Savings Requirement £m	Cumulative Saving £m
2020/21	4.5	4.5
2021/22	4.5	9.0
2022/23	4.5	13.5

(d) 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 £1.8m and will only be replenished from contributions from the Revenue Budget and an approval to the transfer of any further savings at year end

(e) The Council Tax base for the financial year 2019/20 will be **53,508.0** [item T in the formula in Section 31 B(1) of the Local Government Finance Act 1992, as amended (the "Act")].

(f) The Council Tax element of the Collection Fund for 2018/19 is estimated to be a surplus of £333,000 which is shared between the Isle of Wight Council (90.2%) and the Police & Crime Commissioner (9.8%)

(g) The Business Rate element of the Collection Fund for 2018/19 is estimated to be a deficit of £500,000

(h) The Retained Business Rate income[8] for 2019/20 based on the estimated Business Rate element of the Collection Fund deficit as at March 2019, the Non Domestic Rates poundage for 2019/20 and estimated rateable values for 2019/20 has been set at £41,480,492

8 Includes transfer to the "Growth Pool" of £2.0m and transfer from the "Growth Pool" of £1.0m plus the "Top Up" of £7.7m, S.31 Grants of £6.0m and a collection fund deficit of £0.5m

APPENDICES ATTACHED

172. The following appendices are attached:

- Appendix A - General Fund Summary
- Appendix B - Council Tax 2019/20 (calculated by the Council for the financial year 2019/20 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992)
- Appendix C - Indicative Savings 2019/20
- Appendix D - New Capital Schemes starting in 2019/20
- Appendix E - Capital Programme 2018/19 to 2023/24
- Appendix F - Capital Strategy 2019/20 (To follow for Full Council only).
- Appendix G - Investment Strategy 2019/20 (To follow for Full Council only)
- Appendix H - Equality Impact Assessment (To follow for Full Council only)
- Appendix I - Policy for Care Leavers Discount Scheme

BACKGROUND PAPERS

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

a. 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

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COUNCILLOR DAVID STEWART
Leader of the Council

COUNCILLOR STUART HUTCHINSON
Deputy Leader and Cabinet Member for Resources