

Committee report

Committee	FULL COUNCIL
Date	2 SEPTEMBER 2015
Title	BUDGET REVIEW
Report of	LEADER OF THE COUNCIL

EXECUTIVE SUMMARY

1. As part of the Medium-Term Budget Strategy process, a mid-year budget review is undertaken and a report is made to Full Council each September to provide an update on the Council's financial position. This takes into account the previous financial year's outturn, the current year's delivery of savings and budget monitoring position, along with the projected budget position for the next and future financial years.
2. Following the General Election in May this year the new Government announced a second Budget on 8 July 2015. This report also sets out the projected broad impact of this on the Council's financial and budget position.
3. A Comprehensive Spending Review covering the public Sector spending plans for 2016/17 – 2019/20 is expected to follow in the Autumn with the Local Government Finance Settlement with individual Council's grant figures being announced in December.
4. In the context of this updated overall financial and budget position, the report sets out the broad framework for achieving an updated Medium-Term Financial and Budget Strategy for 2016/17 and future years.

OUTCOMES

5. To understand the updated overall financial position facing the Council, to agree the overall framework for achieving an updated Medium-Term Financial and Budget Strategy for 2016/17 and future years and to agree the budget process and timetable to achieve them.

BACKGROUND

6. The Council set the 2015/16 Budget and Capital Programme at its meeting on 25 February 2015. In overall terms it was estimated that over the two financial years 2015/16 – 2016/17 there was a revenue budget gap of some £23 million. A

Budget Strategy was agreed that allocated resources to the Council's updated vision and priorities and an overall financial savings plan was developed to achieve the necessary savings to deliver balanced budgets over the two financial years.

7. The resource allocation reflected the council's statutory duties and is focused on those priority areas that will enable the vision to be achieved. Significant resources have therefore been directed to children's services and protecting the most vulnerable as well as protecting those service areas where the budget consultation process highlighted that people valued the most such as public toilets, tourism, community libraries, beach cleansing.
8. To do this, at the same time as delivering significant savings and balancing the budget, the budget savings proposals concentrated on achieving as many savings as possible from non-direct service delivery and taking opportunities to improve income. In all areas the council is seeking an outcome that achieves savings but protects services by delivering differently. The savings have been targeted at those areas where there is lesser priority and impact.

STRATEGIC CONTEXT

9. The vision and priorities as agreed as part of the budget report were set out in the Council's formal Corporate Plan and agreed at Full Council on 1 April 2015. This Plan set out the outcomes to be delivered by May 2017.

BUDGET REVIEW

10. This Budget Review takes into account a number of considerations that come together to inform the Council's overall financial position and how the Council can deal with it. These are:
 - a) The outturn position for 2014/15.
 - b) The delivery of the 2015/16 Budget.
 - c) Savings implementation
 - d) Emerging additional revenue budget pressures
 - e) Capital Programme
 - f) The projected resources and need to spend position for 2016/17.
 - g) Reserves and balances
 - h) Council Tax
 - i) Fees and charges

(a) 2014/15 Outturn

11. Details of the revenue outturn position for 2014/15 were reported to the Audit Committee on 25 June 2015. After applying the full amount of year end carry forward adjustments the overall net expenditure was £241,000 lower than the approved budget. Throughout 2014/15 the budget monitoring position indicated a potential net overspend of between £1.3 million and £2.7 million but through strong budget management and achievement of additional savings to meet budget pressures it was anticipated that the overall budget would not be exceeded. This proved to be the case.

12. The Outturn was also considered by the Budget Scrutiny Task and Finish group who accepted the outturn position and carry forwards and recommended that the £241,000 underspend should be held in reserves to partially offset the savings in 2015/16 still to be identified.
13. This represents a very positive outcome for the council based on a net revenue budget of £131 million. It is a particularly good result when considering the fact that the council had to achieve net budget savings of £5.922 million during the year, and there were a number of budget pressures that had to be met. Within the overall figure, however, there were a number of significant variations. The biggest ones being overspends of £1.783 million on adult social care and £760,000 on procurement and contract management and net savings on capital financing and vacancy management of £1.215 million, children's services of £860,000 and £546,000 net saving on planning and regulatory services.
14. Although many of the overspends and underspends will be one off there will be some that have an on-going effect particularly adult social care, concessionary fares and some income budgets.

(b) Delivery of the 2015/16 Budget

15. The budget strategy for 2015/16 approved by Full Council on 25 February 2015 identified revenue budget gaps of £14.5 million in 2015/16 and a further £8.5 million in 2016/17. An additional £2 million of reserves and balances was agreed for use in 2015/16 as part of the strategy. The actual savings agreed for 2015/16 therefore totalled £12.5 million with a further £10.5 million required in 2016/17 making a total of £23 million over the two financial years.
16. In addition in 2015/16 it was agreed to set aside £2.070 million as a contingency against savings not being implemented fully in 2015/16 and to a very limited extent provision for any potential match funding or pump priming needed in 2015/16 to facilitate transfer of services to enable them to have a sustainable future from 2016/17 without council funding subject of an achievable service and business plan.

(c) Savings implementation

17. The savings to be achieved in 2015/16 of £12.5 million and a further £10.5 million are the subject of savings implementation plans. The projected position on the overall achievement of the savings is set out in Appendix A. This shows that it is projected that in the current financial year there will be an underachievement of the £12.5million by some £3.0 million.
18. The main areas of potential underachievement of savings relate to:

Adult Social Care residential, nursing and homecare £800k due to the inability to contain spending against an increase in demographic pressures and increasing needs; development of a new operating model £1m; under recovery of assumed income streams £300k; Public health – inability to recharge current costs to Public Health budget £250k; inability to deliver community toilets scheme £150k; delay in changes to staff

terms and conditions £140k; inability to negotiate changes to public transport contracts £85k; school crossing patrols £60k and heritage education £30k as a result of Full Council's decision to amend the budget option to allow schools to opt out if unable to find funds in this financial year; delay in changes to the provision of library services £50k; delay in the introduction of passenger fares on Cowes Ferry £40k; and other smaller variances on several items totalling a further £95k.

Remedial action is being instigated wherever possible to bring those projects that are currently projecting an underachievement of savings, back on track. However, there is a possibility that this may not be feasible, particularly given the remaining timescale left to year end and current staffing capacity and competing demands on officer time.

A motion endorsed by Full Council on 8 July 2015, requested Executive to consider a delay in the implementation of the removal of the rural bus service subsidy. If this were to be agreed, it would only serve to worsen our overall budget situation and detract an already stretched officer capacity from their priority focus of work. It also sets a poor precedence that even when difficult decisions are made and agreed as part of the budget process that they can be unpicked at a later stage in isolation from the overall budget position. More difficult decisions than this will need to be made. Therefore it is recommended that the delay is not agreed.

19. Full Council on 25 February 2015 as part of the budget strategy also agreed savings of £10.5 million for 2016/17. The updated projection of what these will actually deliver is set out in Appendix B. This shows a likely underachievement of £1.869 million.

(d) Emerging additional revenue budget pressures

20. In relation to the base budget itself there are a number of emerging pressures that are currently forecast to lead to an overspend at the year-end if action is not taken to address them where it is possible to do so. These include those pressures on-going from 2014/15. These relate mainly to :-
- Adult Social care £2,100,000(£1,800,000 care packages and £300,000 Wightcare fees) Concessionary fares £180,000
 - Income budgets £450,000 (Highways PFI, music service and parking)
 - Children's services £360,000 (Residential/secure placements and fostering)
21. These costs are offset to some extent by savings elsewhere mainly corporate items but the net position at 31 July 2015 shows a projected overspend of £1 million pending remedial action. The projected overspend of £1m together with the underachievement of savings set out above makes a total projected overspend of £4million for 2015/16.

(e) Capital Programme

22. The total re-profiled capital budget for 2015/16 is currently £18.040m, including projects slipped from 2014/15. Actual spend against budget at the end of quarter 1 is £0.775m against a profiled budget of £0.857m. Work is ongoing with project managers to review each project with a view to identifying the likelihood of delivery during 2015/16 or whether the project budget needs to be re-profiled and slipped into 2016/17.
23. The revenue impact of the prudential borrowing assumed within the treasury management strategy in respect of capital financing costs is limited to £2m for the Rural Broadband project and is £36,500 in 2015-16 and £178,800 in 2016-17 and has been included in the budget costs. The treasury management strategy currently excludes the capital financing costs associated with the new waste management contract; a revised strategy will be submitted to the Audit Committee in September.
24. The Council should receive a substantial capital receipt on 1st September in respect of the ASDA scheme on the employment land at Pan. The capital receipt can only be used for capital purposes and cannot be used directly to fund revenue spend. It is also only one-off once spent it is gone. It can be used, however, to repay capital debt or invest in income generating capital schemes which would reduce our revenue costs. If it is used to fund capital schemes that are essential and unavoidable this would reduce the need for prudential borrowing and avoid interest costs.
25. If, however, the capital receipt is used to fund desirable but not essential schemes that add to the capital programme then no additional revenue savings will result. In the context of the Council's serious financial position it is strongly recommended that the available capital receipt is used proactively to either reduce revenue costs or generate revenue income. through capital investment. This could include for example investing in Adult Social Care prevention schemes such as extra care schemes that keep people out of expensive institutional care, property development, buying out expensive leases and investing in a high yield investment vehicle. A scrutiny task and finish group will be looking at the potential for such investment and making recommendations to the Executive.

(f) 2016/17 Budget

26. The Local Government Finance Settlements that followed the 2010 Comprehensive Spending Review set out the grants that the Council would receive in the four financial years 2011/12 to 2014/15. In overall terms these reflected an on-going net reduction in grants of some £27m per annum. For 2015/16 the provisional figures announced in January 2014 indicated a further net loss of grant (after allowing for new homes bonus, health transfer and Education Support Grant) of some £6.3m. With a further projected loss in 2016/17 of £3.2m this gives a total reduction in grant on an on-going basis over the six financial years 2011/12 – 2016/17 of £36.6m.

27. It is clear that future Finance Settlements will deliver further grant reductions even after 2016/17. The National Budget announced on 8 July 2015 set out the broad parameters for public spending and further savings that will be required over the period from 2016/17. The total savings nationally are some £37 billion and the budget set out savings that will be achieved from the welfare budget £12 billion and from reducing tax avoidance and tax evasion £5bn leaving £20 billion to be announced in the autumn in the comprehensive spending review.
28. The Government have committed to put in an extra £8 billion of funding into the NHS by 2020 on top of the £2 billion this year and protecting defence and education. This £20bn will fall on the remaining unprotected budgets meaning the reductions in those areas will be much more severe. It is likely that local authority services will again feel the brunt of the savings required. The reduction in government grants the Council receives in 2016/17 could therefore be more than the £3.2m currently forecast. At this stage a further £1million has been assumed.
29. The Comprehensive Spending Review, due to report in the autumn will consider all elements of public spending 'in order to create a more efficient public sector, whilst continuing to prioritise growth-promoting expenditure and spending on public services for those who need them the most'. The Comprehensive Spending Review will report in November and it is not yet clear how many years the process will cover.
30. In the Budget there were a number of changes announced to housing benefit, tax credits and allowances and these will have an impact on the Island and potentially the Council. The Government are also introducing a compulsory national living wage which will be set at £7.20 an hour from April 2016 rising to £9 by 2020. They have also said they will limit public sector pay awards to 1% from 2016/17 for four years. Local Government pay awards are separately negotiated via the National negotiating machinery.
31. Apart from the resources that the Council will receive there are also additional costs that will need to be met above the costs previously assumed. These relate to the removal of employers national insurance rebate for employees in the pension fund, Adult social care packages and inflation on contracts. In the previous forecast these were estimated at £4.433 million but are now assessed at £6.485 million an increase of £2.052 million.

(g) Reserves and Balances

32. The Council has a range of reserves and balances and the projected availability is set out in Appendix C. The majority of the reserves and balances are set aside for a specific purpose and are not useable as part of the budget strategy e.g. Highways PFI contract reserve, insurance liability provision, schools balances.
33. The useable general fund balances and insurance risk reserve totalled £15.409 million at 31 March 2015. This includes the extra £241,000 from the savings on the outturn for 2014/15. As part of the 2014/15 -2016/17 budget strategy agreed at Full Council in February 2014 £2.367 million was agreed for use in 2015/16. An additional £2 million was agreed as part of the updated Budget strategy

agreed at Full Council in February 2015 making a total of £4.367 million use in 2015/16.

34. After use of the repairs and renewals fund the estimated total use in 2015/16 is £5.706 million leaving a net total of £9.703 million at 31 March 2016. It was also agreed at Full Council in February 2015 that a contingency from the general fund balances of £2.07 million be set aside. It is clear from the savings implementation and budget monitoring that this will be fully required in 2015/16 thus reducing the total of available general fund balances and useable reserves to £7.633 million.
35. If the 2015/16 budget overspends by more than the £2.07 million contingency then this will have to be met from a further use of general fund balances and useable reserves. On current projections this could be an additional £1.93 million leaving only some £5.7 million available in general reserves. To make adequate provision against unforeseen costs and liabilities a minimum of £5 million of general fund balances and useable reserves is recommended, hence there is little or no flexibility available for use of reserves in subsequent financial years. It also needs to be borne in mind that use of reserves in this way only provides a one-off solution to the problem, whereas the under-recovery of savings and additional costs incurred will have an ongoing impact on the council's budget unless sustainable solutions are identified.

(h) Council Tax

36. The Isle of Wight element of Council tax was frozen for the three financial years 2011/12 to 2013/14. As part of the comprehensive spending review the government announced its intention to encourage local authorities to freeze council tax in 2014/15 and 2015/16. A council tax freeze grant was payable equivalent to a 1 per cent council tax rise (gross of any council tax support). In addition the Government set the maximum level of increase before a public referendum would be required. This was set at below 2 per cent for 2014/15 and for 2015/16.
37. Because of the size of the budget gap faced by the Council a 1.99% increase was agreed for 2014/15 and again for 2015/16.
38. It is highly likely that the new Government will continue with the referendum limit for 2016/17 and future years. There may also be a further freeze grant. Although there are benefits to council tax payers by having a freeze the continued erosion of a major source of income is a concern particularly when set against the enormity of the cuts in government grants and the financial challenge faced by the Council.
39. Bearing in mind the very significant financial position facing the council it is recommended that a council tax increase is agreed for 2016/17 at the level before a referendum is triggered. If the council agreed an increase above this level then a public referendum would need to be held costing in the region of £150,000. On top of this would be the costs of rebilling if it was a no vote. If, for example, a total 5% increase was agreed this would raise an extra £1.966m over and above the 1.99% increase if it was a yes vote.

40. The referendum would be held in May 2016 and if rejected would put the council in a very difficult position having issued council tax bills and budgeting on a level of income that would not be received. In the on-line budget survey held in 2014 in answer to a question on a referendum of the 907 responders only 19.6 per cent supported a council tax increase above 1.99 per cent with 50.7 per cent supporting a 1.99 per cent increase.
41. So far only one authority have gone for a referendum which was Bedfordshire Police who set a council tax increase for 2015/16 of 15.84% (£4.5m) on their element of council tax. This would have raised their police precept from £156.55p to £181.35p on a Band D property an increase of only £24.80p for the year less than 50 pence a week. The result of the referendum was a resounding no with just under 70% voting against the increase.
42. For the Isle of Wight a 1.99 per cent increase on the Council's element of Council tax would cost an extra £26 per annum on a Band D property equivalent to some 50 pence per week. For those on low incomes, who get local council tax support, about a half are pensioners and if their income is low enough to justify it they can get up to 100 per cent support. In addition those classified as working age vulnerable are also currently protected and can get up to 100 per cent support. About a third of applicants who are classified as working age non-vulnerable who would have got 100 per cent under the old national council tax benefit scheme would have to pay 20 per cent. The 2 per cent increase for these would amount to about 10 pence per week. For other claimants who are assessed at less than 100 per cent they would have to pay a 2 percent increase on the proportion they pay. For example someone who gets 50 per cent support would pay an extra 25 pence per week on a Band D property. A 5 % increase in the Isle of Wight Council element of council tax would be some £67 per annum extra on a band D property.
- (i) Fees and charges
43. As part of the budget process we will review the ability to increase income from increasing fees and charges. It is likely, however, that due to economic conditions and current pressures on meeting income budget that this will not deliver much in the way of major additional resource.

OVERALL UPDATED BUDGET POSITION

44. In summary the budget review set out above indicates that the revenue budget gap for 2016/17, for which no savings proposals are currently identified, is £8.738 million. In addition the projected "usable" general fund balances and reserves at 31 March 2016 are projected to be some £5.8 million. The overall position is set out in the table below:-

Budget agreed at	Full Council on 25 February 2015		UPDATED
	<u>2015/16 £'000</u>	<u>2016/17 £'000</u>	<u>2016/17 £'000</u>
Government grant	- 6,261	- 3,200	-4,200
Net increased costs	<u>+ 7,350</u>	<u>+4,433</u>	<u>+6,485</u>
Budget Gap	13,611	7,633	10,685
Council tax increase	<u>1,400</u>	<u>1,500</u>	<u>1,660</u>
Net Budget Gap	12,211	6,133	9,025
Budget gap brought/fwd. funded in 2014/15 by reserves and balances	+ 4,656		
Budget gap carried forward funded by reserves and balances in 2015/16	- <u>4,367</u>	<u>+4,367</u>	<u>+ 7,367</u>
Total Budget Gap	<u>12,500</u>	<u>10,500</u>	<u>16,392</u>
Projected overspend	+1,000		
Revised Savings plan	<u>- 9,500</u>		<u>8,631</u>
Savings still to identify	4,000		7,761
Useable general fund balances and reserves at 31 March 2016	5,703	9,703	5,703

45. It was recognised that, in agreeing the two year revenue budget for 2015/16 and 2016/17 at Full Council on 25 February 2015, the savings plans were not without risk and there were little alternative options to be explored. The budget savings proposals concentrated on achieving as many savings as possible from non-direct service delivery and taking opportunities to improve income. In all areas the council is seeking an outcome that achieves savings but protects services by delivering differently. The savings have been targeted at those areas where there is lesser priority and impact.
46. The Corporate Plan agreed at Full Council on 1 April set out the Vision and Priorities of the Council over the life of this Council and the outcomes and the end position that is being sought by May 2017. The Budget Strategy seeks to direct resources to the priorities and the achievement of the Vision whilst delivering the organisational and service delivery change required that will enable the required savings to be made to meet the budget gaps.
47. To identify further savings of £7.761 million on top of what has already been done is a considerable challenge. The additional savings is on top of £58m of on-going revenue savings that would have already been made or planned to be made since 2011/12. Because of this the ability to identify additional savings options is extremely limited. In addition it is certain that there will be even more reductions in resources through Government austerity measures in 2017/18 and 2018/19.
48. The Council's available General Fund Balances and available reserves are likely to be at or near minimum levels by 31 March 2016. It is therefore

necessary to consider now implementing further in-year savings in 2015/16 otherwise 2016/17 will become undoable.

49. We are looking at further savings through further partnership/joint ventures and opportunities to attract transformation funding from government as well as a review of processes and operation of the Council to minimal levels and ceasing all remaining discretionary services and activities unless they at least break – even.
50. The Executive at its meeting on 4 August 2015 agreed to support Visit Isle of Wight in progressing a D-BID proposition which would, if successful, provide sustainable long term funding from the private sector of around £800,000 a year for tourism marketing and public realm enhancement. This could include beach cleaning, blue flag beaches, lifeguards, town centre and wider environmental improvements which would be in addition to the council's current service provision and statutory responsibilities.
51. It is likely that despite the initiatives already being progressed that the Council will not deliver the savings required and with likely further reductions in government grants the Council may have to consider a council tax referendum but this is unlikely to produce the required result.

WAY FORWARD

(a) Engaging with Government

52. We have already responded to the Government consultation on the review of the business rates system. This is attached at Appendix D. It sets out the challenges facing the Island and the Council and in particular highlights the specific factors that together make the Island unique in the resource impact it is suffering e.g.
 - The low economic and business rate base
 - The impact of having an above average older population and the wider health economy on the Island
 - Children's services social care activity levels
 - Concessionary fares
 - The low proportion of the Council's budget, as a small unitary, that is controllable and what we have already done to make savings
53. Because of the serious financial position it is essential that we continue a dialogue with Government, ahead of the normal delegation on the Financial Settlement, about a different deal for the Island .Without an Island Deal it is extremely likely that the Council faces financial failure with the consequent impact on the Island that would result.
54. In promoting an Island Deal ,that looks to address some of the specific disadvantages faced by the Island , we have highlighted a number of potential issues:-

- Introduction of some form of visitor tax to protect services which underpin the visitor economy(this is unlikely to be a practical option)
- Business rate retention scheme additional top up grant based on a higher threshold that reflects a south east increase in business rate growth
- National concessionary fares being limited to island residents and not visitors or an additional specific grant to cover visitors
- A higher Council Tax referendum level to account for additional adult social care costs
- Alteration to criteria to better reflect the Island's separation from the mainland in the allocation of Government funds for business growth and support by Local Enterprise Partnerships.
- Provision of support for business start-ups and development in mainland markets rather than by simply taking market share from established businesses serving Island markets.
- Providing assistance in bringing derelict tourist sites back into use.
- Creating greater competition in the Island's adult social care market.
- Introduction of a services delivery top up grant on the same basis as the rural services delivery top up grant that supports areas with similar characteristics.

55. In addition we are also engaged in discussions with Hampshire authorities about a devolution deal for Hampshire and Isle of Wight for the certain functions and responsibilities currently undertaken by government. Through these discussions the case for the Island to get a better deal has been strongly emphasised and in particular that the future sustainability of the Island is a key feature. A statement of intent was sent to the Secretary of State at the Department for Communities and Local Government at the end of July. A proposed Devolution Deal for Hampshire and Isle of Wight is the subject of a separate report on the Agenda.

56. What is clear is that the time it will take to negotiate and agree a devolution deal with government will be considerable and it is unlikely that the financial benefits, if any, would begin to be seen much before the end of 2017. Whilst it is hoped that this deal will make a contribution to the underlying issues of the basic financial challenge facing the Council and its viability, there is much work to be done to confirm this will be the case. There is also no certainty that a deal will be agreed amongst the local authorities in the area and with government and it is therefore appropriate for the Council to continue to plan for this eventuality.

(b) Implementing in year additional savings

57. Appendix E sets out a summary of additional in year savings and at this stage it is proposed that the following measures be implemented as of immediate effect:-

One- off savings £2.402 million

- Use of adult social care reserves to support adult social care in year £800,000
- Balance of care act funding £300,000 not currently assumed in forecast
- Children's services savings identified early £200,000
- Vacancy management £300,000

- Other accounting adjustments £400,000
- Use of Licensing reserve £100,000
- Fire Service additional savings £50,000
- Parks and leisure savings brought forward from 2016/17 £30,000
- Regulatory Services reserve £30,000
- Planning reserve £150,000
- Regulatory Services £20,000 savings brought forward from 2016/17
- Moratorium on non-essential spend and ICT charges to capital £22,000

Recurring savings 2015/16 £1.482 million

- Change in Minimum Revenue Provision £1,300,000 (saving reducing each year)
- Leisure Services Trading Company £5,000
- Reduction in Organisational change support £1,000
- Reduction in health and safety training £5,000
- Reduction on use of printers, postage and stationery £40,000
- Additional income generated through the sale of HR services to schools £40,000
- Cease project network cleaning £10,000
- Regulatory Services £30,000
- Administration staff and meetings review savings £40,000
- Introduction of fuel cards £2,500
- Staffing reductions £9,000

58. It is clear from the Council's financial position that we need to be looking at all opportunities for making savings. This must include streamlining the processes we undertake, how we operate as a Council and the level of formal meetings and administration that is currently involved. No date has been set for a full Council in April 2016 and it is likely that an October 2015 meeting will not be necessary. Executive accountability will remain through the Scrutiny Committee and through member's questions at Executive meetings. It may also be sensible to review other meetings such as the select committees.

(c) Further savings options to be developed and implemented in 2016/17

59. The existing budget savings options already include significant organisational change, a new operating model, efficiencies, income generation and service redesign. Every effort is being made to keep those projects on track for delivery in line with the agreed budget strategy set by Full Council on 25 February 2015. So what else can we look at? What other opportunities are there? The following areas have been looked at :

- Savings options that were not supported previously/new ideas
- Further partnership/joint ventures and opportunities to attract transformation funding from government
- Reduction in resource allocations against the four priority areas

- Review of processes and operation of the Council to minimal levels e.g. Small corporate core, significant reductions in council meetings, contact centre provision, complaints,
- Identification and removal of all net budgets for all remaining discretionary areas on the basis that they make a surplus break even or cease.

Appendix F sets out a summary of Further Savings options for 2016-17

60. In the context of the Council's serious financial position it is strongly recommended that the available capital receipt generated from the ASDA scheme is used proactively to reduce revenue costs and/or generate revenue income.
61. Taking into account the proposals in b) and c) above then this will alter the position set out in the table at paragraph 44 above as follows:-

Budget agreed at	Full Council on	25 February 2015	UPDATED
	2015/16 £'000	2016/17 £'000	2016/17 £'000
Net Budget Gap	12,211	6,133	9,025
Budget gap brought/fwd. funded in 2014/15 by reserves and balances	+ 4,656		
Budget gap carried forward funded by reserves and balances in 2015/16	- <u>4,367</u>	<u>+4,367</u>	<u>+ 7,367</u>
Total Budget Gap	<u>12,500</u>	<u>10,500</u>	<u>16,392</u>
Projected overspend	+1,000		
Revised Savings plan	<u>-9,500</u>		<u>-8631</u>
Revised Gap	4,000		7761
2015/16 in year savings			
One-off	2,402		0
recurring	1,482		1,500
2016/17	<u>0</u>		<u>5,203</u>
Savings still to identify	116		1,058
Useable general fund balances and reserves at 31 March 2016	9,703		

CONSULTATION

62. For the last two years a number of budget engagement events were held at venues across the Island and an on-line survey was also undertaken. A number of budget consultation focus groups were also held with a range of stakeholders.
63. The scrutiny committee is focusing on the budget as part of their work, and has a budget task and finish group to consider specific issues.
64. For this year it is intended to arrange targeted focus groups, Island-wide events and online surveys for October and November to involve residents, business,

voluntary sector, other organisations and staff in a conversation about the savings options open to the Council and resource allocation.

65. All consultation responses will be used to update the equality impact assessments and the outcomes will be taken into account in making final decisions.
66. There is continuing consultation with staff and unions on the overall budget. Depending on the savings options developed and agreed for implementation there will need to be appropriate consultation with stakeholders, staff and unions. Those savings that relate to staffing may result in redundancies and will require issuing a further formal statutory HR1 notification.
67. Specific consultation exercises are being worked up in respect of potential service changes arising from the budget options being developed and these will be implemented as required.

FINANCIAL / BUDGET IMPLICATIONS

68. This report is entirely about the overall financial and budgetary position of the Council and updates the financial and budget issues that the Council is now facing following the outturn position for 2014/15, the first three months performance in 2015/16 and the projected resources position for 2016/17 and future years.
69. The budget gap relates to the revenue position of the Council .For capital spend those costs not able to be met from government grants or capital receipts have to be met from borrowing. The borrowing costs have to then be provided in the revenue budget.
70. The Council faces a significant level of reduction in the resources that it will have available to fund services. The level of grant reductions from government is significant each and every year for the foreseeable future. The current level of service delivery and the activities it undertakes is not affordable and therefore budget options must be developed to deal with this position.
71. Unless the Council implements additional in-year savings then there is a likelihood that the general fund balances and available reserves will drop below minimum levels. There is also a risk that the savings gap in 2016/17 will not be able to be bridged without the Council stopping services where it has a statutory duty to provide them.
72. There is also a risk that the Council could get into the position, if it spent all of its useable general fund balances and reserves, where it could not meet all of its financial obligations to creditors. The Council cannot go bankrupt but in circumstances where the likely total resources are not sufficient to meet its likely expenditure then unless remedial action can be taken the Section 151 officer ,under section 114(3) of the Local government Finance Act 1988 has to make a report ,in consultation with the monitoring officer, to the Full Council.

73. The report goes to all the members of the Council and the External Auditors and until the report is considered any new agreements to spend cannot be made.

LEGAL IMPLICATIONS

74. The Council will need to set a lawful and balanced budget and Council Tax level for 2016/17 at the Council meeting on 24 February 2016. In developing any proposals the necessary equality impact assessments and consultation processes will need to be followed, and consultation responses will be taken into account before any decisions are taken.
75. The ability to implement savings that deliver a full year effect in 2016/17 is dependent on undertaking the necessary statutory processes and consultation within a timescale that enables savings proposals to be implemented with some effect from 1 April 2016. It is therefore necessary now to identify the additional areas over and above the ones agreed in February 2015 that are likely to be the subject of savings proposals so that they can be properly worked up to allow for a full year effect in 2016/17.
76. The totality of the savings required in this and the next financial year will entail a significant reduction in posts. This will mean the potential redundancy of more than 100 employees within a 90 day period and the council is required to issue a formal notice under section 188 of the Trade Union and Labour Relations (Consolidation) Act 1992 (as amended) and related regulations through the HR1. This provides staff with the opportunity to be consulted upon proposals for staffing reductions and to explore ways in which redundancy situations might be avoided.

PROPERTY IMPLICATIONS

77. There are no specific property implications of this report but the ability to support the capital programme is dependant in part on the ability to dispose of surplus assets and generate capital receipts from the sale of assets. The delivery of the strategic asset management strategy is also essential in driving the Council's on-going revenue costs down.

EQUALITY AND DIVERSITY

78. 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). Equality impact assessments will be completed in respect of relevant proposals as part of the decision making process to enable members to take into account and if necessary mitigate the impacts as part of the decision making process. An updated Equalities Impact Assessment on the overall Medium-Term Financial Strategy will be completed for the budget considerations in February 2016.

OPTIONS

79. In relation to developing the approach to the 2016/17 Budget there are three main options:
- (a) To agree the overall approach and strategy as set out in this report as the basis for achieving a balanced budget in 2016/17 i.e.
 - (i) The overall approach to engaging with the Government as set out in Paragraphs 52-56.
 - (ii) The in -year budget savings and development of further budget savings options set out in paragraph 57.
 - (iii) To undertake focus groups, Island-wide events and online surveys for October and November to involve residents, business, voluntary sector, other organisations and staff in a conversation about the savings options open to the Council and resource allocation as well as the appetite for a council tax increase above the capping level.
 - (iv) To undertake specific consultation exercises where required on those items set out in Appendix F.
 - (v) That the available capital receipt generated from the ASDA scheme is used proactively to reduce revenue costs and/or generate revenue income.
 - (vi) To consider whether the number of Full Council meetings should be reduced further and in particular the October 2015 meeting and whether to review any further meetings such as the select committees.
 - (vii) To reaffirm the budget decisions made at Full Council on 25 February 2015 in respect of subsidised and community bus services.
 - (b) To identify and agree any specific further areas that should be worked up for consideration in the budget decisions in February 2016 and consult with residents / stakeholders as appropriate and to develop relevant Equality Impact Assessments.
 - (c) To not agree the overall approach and strategy as set out in this report and ask that an alternative version be developed for consideration by members in due course.

EVALUATION

80. For 2016/17 and beyond the council still faces a significant financial challenge and it is essential that budget options for dealing with these are developed in a timescale that enables effective implementation. This needs to include options that reflect the longer –term financial position not just for 2015/16. Option (iii) is

not recommended as it delays any action and risks not achieving required budget options within the timetable required. Option (i) is recommended together with any additional areas under option (ii).

RISK MANAGEMENT

81. Currently interest rates are low and no new long-term external borrowing has taken place since January 2005. This has led to significant one-off savings on capital financing costs. The Council's reserves and surplus cash flow is used instead of long-term borrowing. If this was invested short term the interest earned would be very low – some 0.5% – whereas the long-term rates would be in excess of 4%. Ultimately when longer-term borrowing and/or interest rates rise then additional revenue costs of £2m+ per annum may need to be met.
82. The key risks of the 2016/17 Budget Strategy relate to budget pressures being even higher than anticipated, government grant reductions being even higher, savings and efficiencies not being achieved, proposed income levels not being achieved and inflation being higher than expected. These risks are contained in the strategic risk register.
83. If full year effect of savings are to be achieved in 2016/17 then savings options need to be developed and agreed within timescales that enable appropriate consultation and consideration of equality impact assessments to take place.
84. It is considered that General Fund balances of at least £5m need to be maintained on top of earmarked reserves to provide a sustainable position which protects the financial health of the Council in the medium-term. Savings implementation plans have been adopted and are rigorously monitored through Service Boards and the performance management framework. The Executive and Corporate Management Team consider the overall budget monitoring position at each of its meetings. The Scrutiny Committee also consider the budget position at its meetings and through the budget task and finish group
85. The first three months budget monitor indicates that the overall budget could overspend by £4 million in 2015/16. This would make the position in 2016/17 potentially undoable.
86. For 2016/17 and future years it is essential that the Council identifies the necessary measures to deliver a lawful, balanced and sustainable budget. Proposals need to be developed so that the necessary decision-making processes can be followed.

87. RECOMMENDATIONS

That Full Council considers the overall financial position of the Council set out in the report and agrees option (a) :-

To agree the overall approach and strategy as set out in this report as the basis for achieving a balanced budget in 2016/17 i.e.

- (i) The overall approach to engaging with the Government as set out in Paragraphs 52-56
- (ii) The in - year budget savings and development of further budget savings options set out in paragraph 57
- (iii) To undertake focus groups, Island-wide events and online surveys for October and November to involve residents, business, voluntary sector, other organisations and staff in a conversation about the savings options open to the Council and resource allocation as well as the appetite for a council tax increase above the capping level.
- (iv) To undertake specific consultation exercises where required on those items set out in Appendix F.
- (v) That the available capital receipt generated from the ASDA scheme is used proactively to reduce revenue costs and/or generate revenue income.
- (vi) To consider the number of Full Council meetings and in particular not to have meetings in October 2015 and April 2016 and review further meetings such as the select committees.
- (vii) To reaffirm the budget decisions made at Full Council on 25 February 2015 in respect of subsidised and community bus services.

88. APPENDICES.

- [APPENDIX A](#) - Implementation of 2015/16 budget savings
- [APPENDIX B](#) – Projected delivery of 2016/17 savings
- [APPENDIX C](#) - Reserves and balances
- [APPENDIX D](#) - Response to Business Rates Review Consultation
- [APPENDIX E](#) - In-year savings proposals
- [APPENDIX F](#) – Further savings options for 2016/17

89. BACKGROUND PAPERS

None

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