



Committee report

Committee	FULL COUNCIL
Date	20 JANUARY 2016
Title	COMPREHENSIVE SPENDING REVIEW AND PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2016/17 AND IMPACT ON THE MEDIUM-TERM BUDGET STRATEGY
Report of	THE LEADER AND EXECUTIVE MEMBER FOR RESOURCES AND CHILDREN'S SERVICES

EXECUTIVE SUMMARY

1. The outcomes of the Provisional Local Government Finance Settlement mean that the Council must save a minimum of £17.386 million in its current spending plans to set a lawful and balanced budget for 2016/17. This saving is required in order to meet the increasing demands for its statutory services (legal duties) and the impact of reductions in grants received from Government.
2. This paper identifies potential choices for the council to consider drawn from those remaining areas where the council has no legal duty to provide a service in order to achieve these challenging savings in response to the Government's tight financial settlement. This settlement brings into question the future viability of the council. It presumes an increase in Council Tax of 3.99 per cent which is assumed by Government in the settlement.

INTRODUCTION

3. This report follows the budget review that went to the Full Council on 2nd September and 14 October 2015. It updates the council's financial position in the context of the Comprehensive Spending Review and Autumn Statement announced on 25 November 2015 and the Provisional Local Government Finance Settlement announced on 17 December 2015.
4. The budget review identified a number of further savings and Full Council agreed further savings in 2015/16 be implemented. These amounted to £2.402 million of one off savings and £1.482 million of recurring savings a total of £3.884 million against the projected net overspend in 2015/16 of £4 million. For 2016/17 the projected revenue budget gap was £15.794 million of which potential savings options of £13.449 million had been identified and were being developed leaving a remaining gap of £2.345m. The savings identified, however, contained some options that would be very challenging to deliver and required significant refinement.

5. This report sets out the updated position after taking into account the Comprehensive Spending Review, the Local Government Finance Settlement, and the latest budget monitoring position. The overall projected position for 2015/16 is that the revenue budget will not be exceeded. For 2016/17 the overall revenue budget gap including the impact of use of reserves in 2015/16 and budget gap carried forward (£6.769 million) is now projected at £17.386 million.
6. The previous forecast assumed a net loss of Government grant in 2016/17 of £4.2 million. From the Provisional Local Government Settlement announced on 17 December 2015 the council figures show an £8.021 million cut in revenue support grant in 2016/17, a cut of Education services grant of £132,000 but an increase in new homes bonus of £864,000 and increased business rates and top up grant of £247,000. This gives a net loss of Government grants of £7.042 million. The council will also get a continuing grant in relation to the care act of £1.088 million but this reflects the additional costs the council faces in relation to the implementation of the Care Act.
7. The Provisional Local Government Settlement includes indicative figures for the four financial years 2016/17 – 2019/20 and includes very significant grant losses over each and every year.
8. In the context of the sheer scale of grant reductions and budget pressures the council will face over the next four financial years 2016/17 to 2019/20 the report sets out the proposed way forward in ensuring that the council can
 - Deliver a lawful budget each year
 - Allocate resources to meet the council's statutory duties and to those activities that will deliver the outcomes needed to achieve the council's vision and priorities.
 - Where possible deliver savings that have the least impact on the most vulnerable and residents.
 - Realign activities and develop a smaller more agile organisation focused on the core business of the council.
 - Develop partnerships and the way the council does business to enable Co-production and co-design of activities to deliver outcomes that are affordable.
 - Become more commercial, generate greater income streams and encourage inward investment to make the council more financially sustainable.
 - Realise the opportunities that a devolution /combined authority deal with Government could bring to the Island.

BACKGROUND

9. The very serious financial challenge facing the council has been well documented, with the impact of significant government grant cuts leading to ongoing revenue savings of some £50 million having to be made from 2011/12 to 2015/16. The Budget Review report to the 2nd September 2015 Full Council set out the then projected budget position for 2015/16 and 2016/17 and a

number of further savings options were agreed. The figures projected were by no means the worst case scenario with the risk that grant reductions would be higher than projected and the likelihood that further significant grant losses would be suffered through the Comprehensive Spending Review (2016/17 to 2019/20).

10. It was clear that for the foreseeable future the council faced a significant budget gap each and every year as the reduction in government grants plus increased costs will always substantially outweigh its ability to raise income through council tax and local income.
11. This means that the current level of services and activities are unaffordable and significant reductions will need to be made to deliver lawfully balanced budgets.

STRATEGIC CONTEXT

12. The council's existing corporate plan was agreed by Full Council at its meeting on 1 April 2015. This will need to be further updated as result of the decisions taken through the budget process.
13. To achieve the vision and deliver the priorities and outcomes within the resources that will be available the council needs to operate radically different than it does now. By moving to an enabling council, commissioning for delivery of outcomes rather than directly providing services and working through strategic partnerships means a different approach.
14. This approach entails having a much smaller directly employed workforce with the officer structure and corporate support directly linked to the delivery and achievement, mainly through external arrangements, of the agreed council priorities and outcomes.

COMPREHENSIVE SPENDING REVIEW

15. The Chancellor of the Exchequer announced the autumn statement and the Comprehensive Spending Review on 25 November 2015. This set out the overall framework for public spending over the remaining life of the parliament 2016/17 – 2019/20.
16. In dealing with the national deficit public services' spending limits and changes to resource levels were set out with a view to achieving a national surplus in 2019/20.
17. A number of service areas were given relative protection such as the NHS, Education and the Police and major investment announced in housing but for local government it set out very significant reductions in grants over the next four financial years.
18. The main elements of the Comprehensive Spending Review that directly impact on local government are :-

Business Rates:

- 18.1. Confirmation that by 2019/20 100 per cent of business rates will be retained by local government as opposed to the current 50 per cent .Consultation on the changes to the local government finance system to pave the way for the change will be undertaken next year.
- 18.2. The Government will still set the business rate and local authorities will only be free to reduce business rates and not increase them except under an elected mayor model and then only in limited circumstances.
- 18.3. There will still be an equalised baseline at the start to protect councils like the Isle of Wight who currently receive a top up grant. It is also likely that the 100 per cent of business rates will not be based on individual authorities but on some form of regional grouping.
- 18.4. By 2019/20 the yield from 100 % of business rates is estimated to be £13 billion nationally more than the reduced spending level for local government. To make up for this the government intends to transfer additional responsibilities and costs to local authority's equivalent to £13 billion. This could include public health and housing benefits for pensioners.
- 18.5. The government have also extended again the doubling of the small business relief for another year

Devolution

- 18.6. The government are still promoting the use of devolution deals as the approach to redistributing powers and responsibilities away from Whitehall for local determination and management. It sees this as being a major vehicle for encouraging economic growth in areas with devolved powers and that this economic growth will provide sufficient additional income to sustain the provision of services by local government.
- 18.7. The government also now has powers to impose devolution arrangements where local authorities are unable to reach collective agreements about how they would work together. It has also made it easier for the creation of new authorities and for new geographies of local authorities to work together in the delivery of devolved duties.
- 18.8. Devolution would seem to be key to the central proposition that local government services are funded by the retention of 100% of business rates.

Government grants and spending controls

- 18.9. The main general fund revenue grant the council receives is the Revenue Support Grant (£26.103 million in 2015/16). It is intended that this grant will be phased out by 2019/20 and with other grants be replaced by having 100 per cent of business rates. Before this, however, there is a significant decrease in grants in each of the next four financial years:-
 - A 56 per cent reduction by 2019/20 in revenue support grant

- Education Services Grant reduced by 60 per cent with reduced statutory duties and a reduced role for local authorities in schools (IOW grant 2015/16 £1.423 million)
- New Homes Bonus to be reviewed with a preferred option of reducing it by £800m for social care and reducing from 6 years to 4 years (2015/16 IOW new homes bonus £3.056 million)
- Public health grants to be reduced by 3.9 per cent average in real terms per year over the next five years. Budget continues to be ring fenced for 2016/17 and 2017/18
- Funding (capital) for disabled facilities grant to be increased from £220 million to £500 million by 2019/20
- In encouraging local authorities to dispose of surplus assets and to transform services it is proposed that, with certain conditions, capital receipts from such disposals can be used to fund the revenue costs of transformation projects. Although it is proposed that only capital receipts earned from April 2016 can be used for this purpose.

Adult Social Care

- 18.10. For adult social care there will be an ability to have a 2 per cent council tax increase above the referendum threshold. There may be conditions attached to this and these are awaited. If agreed by the council this would increase income (net of council tax support) by some £1.35 million. Against this, as a result of the government introducing the national minimum living wage, the council is likely to face additional costs of adult social care packages in excess of this amount. In addition there will be increased costs through demographic pressures and increasing need.
- 18.11. The government also intend to put £1.5 billion more into adult social care via the Better Care Fund by 2019/20. This does not start until 2017/18 and will be phased in. Only £700 million is new money with £800 million coming from the new homes bonus grant.
- 18.12. On integration of health and social care there will be a requirement to produce a plan in 2017 to be implemented by 2020.
- 18.13. On the housing front the government is doubling its housing budget from 2018/19 with a view to delivering 400,000 new homes by 2020/21 including 200,000 starter homes and at least 8000 homes for older people and people with disabilities.

PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2016/17

19. Following the autumn statement and comprehensive spending review announced on 25 November 2015 the specific financial position for individual local authorities was set out in the Provisional Local Government Finance Settlement 2016/17 which was published on 17 December 2015.
20. The Provisional Settlement set out individual council grant figures for the four financial years 2016/17 to 2019/20. The government are offering every council

that desires one and which can demonstrate efficiency savings a four year settlement to give certainty of over resource levels.

21. Although a four year settlement is welcome the settlement contains a very significant level of grant reductions that are likely to lead to potentially unsustainable and undeliverable budgets.
22. The table below sets out the position for 2016/17 the Isle of Wight.

	Actual 2015/16 £ million	2016/17 Provisional Settlement 17 Dec 2015 £ million	Change £ million
<u>Business Rate Retention Scheme</u>			
50% local share	17.294	17.440	
Top up grant	<u>12.449</u>	<u>12.550</u>	
(uprated by RPI)	29.743	29.990	+ 0.247
Revenue Support Grant	26.103*	18.082	<u>-8.021</u>
Care Act funding	<u>1.088</u>	<u>1.088</u>	<u>-</u>
Settlement Funding Assessment	56.934	49.160	-7.774
New Homes Bonus	3.056	3.920	+0.864
Education Services Grant	1.423	1.291	-0.132
	61.413	54.371	- 7.042

*Revenue support grant includes council tax support grant. The council tax figure is net of this grant as the support given no longer counts as council tax income.

23. The table shows a significant reduction in the main grants received by the council. In addition there is a public health grant that is ring-fenced which will also be the subject of real term cuts over the next five years. There are also a few other grants that are still to be announced.
24. It can be seen that the settlement funding assessment (before New Homes Bonus, Education Services Grant etc.) has been cut by £7.774million in 2016/17 compared to the current financial year.
25. The council receives additional funding for adult social care via a transfer from Health. In 2014/15 this increased to £3.513 million. For 2015/16 there were new arrangements for a Clinical Commissioning Group (CCG) and local authority pooled Better Care Fund (BCF). This fund is to enable integration of health and care services. The Clinical Commissioning Group and local authorities must agree locally through Health and Wellbeing Boards how the funding will be spent across health and care services. For 2015/16 the Council received £6.674 million.

26. For 2016/17 the council is still in discussion with the CCG over the allocation but there is a risk that this will be reduced by £2.1 million .If this is the case it will add to the overall budget gap.
27. The Provisional Local Government Settlement includes indicative figures for the four financial years 2016/17 – 2019/20 and contains very significant grant losses over each and every year. The revenue support grant reduces from £26.103 million in 2015/16 to £2.921 million in 2019/20 a reduction of £23.182 million some 89%.
28. As announced in the Comprehensive Spending Review there will be changes to adult social care funding including the ability to raise council tax by 2.0 per cent above the referendum capping level. This would raise some £1.35 million in 2016/17 which will not cover the anticipated costs of the national living wage through increased adult social care provider costs.
29. The additional £1.5 billion national funding for adult social care is very weighted to the later years with nil in 2016/17, £105 million in 2017/17, £825 million in 2018/19 and the full £1.5 billion in 2019/20. The council's indicative allocation is a mere £100,000 in 2017/18, £2.2 million in 2018/19 and £4.2 million in 2019/20. To offset this however £700 million of this nationally is being funded by transferring grant from the New Homes Bonus and therefore the council will have reduced funding from that source of £1.5 million in 2018/19 and £1.6 million in 2019/20.
30. The Settlement is called provisional in that there is now a consultation period with the final settlement being announced in early February. There is normally very little change between the provisional and final settlements.

OTHER BUDGET CHANGES

(a) Budget pressures

31. Taking into account the National Budget in July 2015, Comprehensive Spending Review and the latest budget monitoring position to 31 December 2015 it is projected that additional costs to the council in 2016/17 will be £7.830 million. This includes an estimate of the potential cost of the national living wage on adult social care packages.
32. The updated budget monitoring position reported to Full Council on 2 September 2015 indicated a potential overspend of some £4 million. Full Council agreed a number of further savings (some were one offs) to be implemented in 2015/16 with the result that it was projected that in overall terms the revenue budget would not be exceeded.
33. The latest revenue budget monitoring position indicates that the overall revenue budget will not be exceeded.

(b) Capital Programme

34. The latest version of the 2016/17 to 2017/18 proposed capital programme is set out in Appendix B to this report. Final proposals will be included in the

budget report to Full Council on 24 February 2016. The programme is based on those schemes that are funded by external grants and other capital contributions, invest to save schemes that are self-funded and essential works that meet health and safety requirements or preserve income.

35. The council received a £17.5 million capital receipt as part of the disposal of the employment land at Pan to Asda. Full Council on 2 September 2015, as part of the consideration of the Budget Review, agreed that the capital receipt be used proactively to reduce revenue costs and/or generate revenue income.
36. A member group chaired by Cllr Lumley met to consider ideas and options for the use of the capital receipt. They made recommendations to the Budget and Policy Liaison Group and these were endorsed by that group. The recommendations are set out in Appendix C.
37. As part of the provisional settlement council's will be given flexibility through a special dispensation to be able to use capital receipts to fund the revenue costs of transformation. This could be useful in defraying necessary costs of implementing change without adding to the revenue budget gap. Currently the government proposal is to only allow this use for capital receipts from asset disposals after 31 March 2016 and would not therefore include the Asda receipt.

OVERALL BUDGET POSITION

Council Tax

38. The council agreed, as part of the budget for 2014/15 and 2015/16 to increase council tax at the maximum level that did not trigger a referendum i.e. by 1.99 per cent each year. In calculating the budget gaps it has been assumed that there will be further annual increases of 1.99 per cent each year. It is also assumed that, because of the council's very difficult financial challenge and the scale of savings required anyway that an additional 2% increase will be levied in respect of adult social care costs.
39. To put it into context a 1.99 per cent increase on the council's element of council tax would cost an extra £26.70 per annum on a Band D property equivalent to some 50 pence per week. The 2% on adult social care would cost an extra £26.83 on a Band D equivalent. Together a 3.99% increase would cost some £53.53 just over a £1 per week. For those on low incomes, who get local council tax support, about a half are pensioners and if their income level supports it they can get up to 100 per cent support. In addition under the local council tax support scheme those classified as working age on low incomes can also get support towards their council tax bills. A separate report on the agenda sets out the proposed local council tax support scheme for 2016/17.

Use of Reserves and Balances

40. The majority of the council's 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, waste contract , insurance liability provision, schools' balances.

41. The useable general fund balances and insurance risk reserve totalled £15.409 million at 31 March 2015. This included 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 2015 the use of a total £4.367 million in 2015/16 was agreed.
42. After use of the repairs and renewals fund the estimated total used in 2015/16 is £5.706 million leaving a net total of £9.703 million at 31 March 2016
43. 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.
44. Because of the substantial revenue budget gap in 2016/17 projected at £17.386 million it will be necessary to use available reserves and it is assumed that £4 million will be used with a further £1 million in 2017/18 to try and smooth the savings targets required.

Updated Budget Gaps

45. Taking into account the Provisional Local Government Finance Settlement figures, the estimated additional cost pressures, council tax increases of 3.99 percent each year and assumed level of available reserves an overall projected budget position for the next four financial years is set out in Appendix A.
46. This shows a total budget gap over the four financial years of £31.455 million of which £23.504 million (75 per cent) falls in the next two financial years.

BUDGET STRATEGY

47. The government's austerity programme has meant that local government generally has faced very significant cuts in grant funding. Over the five financial years 2011/12 – 2015/16 the council will have had its central government grant support reduced by £33.4m (over 30%) on an ongoing basis whilst at the same time its costs, through increased need in adult social care, children's services and other services plus inflation will have increased by some £30m.
48. The overall strategy that the Council has been pursuing to deal with this position is to achieve a medium-term financial approach that seeks to match, over time, the net cost of the activities that the Council undertakes with the resources it has at its disposal.

49. To ensure that the limited resources the council has are directed to fulfilling its statutory duties and achieving its priorities a refreshed vision and priorities were developed and a corporate plan was agreed by Full Council on 1 April 2015. In order to deliver lawfully balanced budgets the strategy has been to:-
- Direct the resources available to the Council to meeting the council's statutory duties, achieving the vision and the outcomes required under the priorities.
 - Move much further to being an enabling council rather than a provider of services by developing different delivery models and an overall affordable council operating model that supports this approach
 - Work in partnership to deliver outcomes for the island that the council can no longer afford to do by itself and to enable the opportunities of the social capital of the Island to be fully utilised
 - Implement a programme of organisational change and service redesign
 - Target savings where possible to non-direct service delivery costs
 - Increase income and develop income generation opportunities
 - To maintain effective budgetary control in order to keep within overall budget each year and preserve available reserves to aid the budget strategy and manage savings with long lead in times
 - Manage expectations and recognise that there is not the capacity, capability or financial resources in the council to deliver what is currently expected
 - Understand that by setting out priorities and resource allocation that inevitably decisions will have to be made to stop and reduce services that are of a less priority and unaffordable

PROPOSED WAY FORWARD

50. The council has faced a significant financial challenge over the last few years as a result of the government austerity measures. Local government has been subjected to an programme of grant cuts and from the Comprehensive Spending Review and Local Government Finance Settlement will face even greater challenges over the next four financial years 2016/17 to 2019/20. In agreeing a budget for 2016/17 the council also needs to have due regard to the total projected budget gap for 2017/18, and the likely resources position in 2018/19 and 2019/20.
51. The key assumption in the Comprehensive Spending Review which has influenced the Provisional Local Government Finance Settlement is that the national economy will continue to improve and the national deficit will be cleared over the four year period. Therefore there could be a better financial position for local government towards the end of the period especially if more businesses are created and paying more business rates that would be ring

fenced to local authority services. The council must therefore ensure it is able to create robust financial and service delivery plans for it to prevail through the immediate challenges it faces.

52. To prevail the council must first be assured that it allocates the limited resources it will have available to meet its legal duties and obligations and that it is providing these services in the most cost effective manner. This does not mean that it has to provide the services directly itself but that it is receiving value for money from all of its suppliers which stands comparison with councils in similar circumstances across the country. Part of reaching this affordable position will be to consider many of those services which although related to its legal duties (much work that it is 'preventative' could be considered in this regard) do not actually have to be provided although likely to save the council money over the longer term.
53. Only when the council is certain it can discharge its legal duties and responsibilities can it then look to provide other services the community may want/need but which the council does not have to provide. Its challenge will be in considering which services it has the power to provide that could help secure additional income and economic growth over the medium term which could help to fund its legal obligations.
54. Having consolidated its activities to a 'baseline' position the council can then focus its attention on further improving the delivery and impact of these services ultimately seeking to make them best in class for the money available. These improvement activities themselves should aim to ensure the services are sustainable in the longer terms and release resources that could be added back to reintroducing activities that seek to prevent and reduce service demand over the longer term.
55. Getting to an affordable baseline position given the extent of the budget savings required means that the council will have to undertake a fundamental change in the manner in which it operates and the services it provides. It will have to consolidate its organisation, planning and structure around its legal responsibilities with a tight and focus around its activities in these areas. Developing partnerships with other public sector bodies, the third sector and town and parish councils are likely to have to be accelerated and embedded providing they demonstrate best value to the council in their arrangements. Even the role of Members is likely to fundamentally change as the council is unlikely to have the resource to deal with the many requests that Members receive on a day to day basis. This work must follow quickly once the council has agreed its lawful and balanced budget for 2016/17.
56. The proposed Hampshire and Isle of Wight devolution deal with government continues to offer an opportunity for the council to rebuild from its baseline position far sooner than if it continues to operate independently. The current proposition pools any economic growth across the whole area for its redistribution based on a number of criteria including need and reward. If the deal is agreed it is unlikely to begin before April 2017 and there would be a lag in the start of any economic benefits, so the council would still need to secure its baseline position and operating model at the start of the devolution deal. One challenge which the council would need to take account of in developing

its baseline position will be to ensure it is able to contribute to the activities agreed by the partners to promote economic growth across the area.

57. The expeditious use of the council's capital receipts from the sale of the employment land to Asda will be central in securing the council's baseline position from which it can develop. The proposals in Appendix C are consistent with the council's aim to reduce revenue costs or increase income and if the full businesses cases for these proposals do not meet this test then alternative schemes should only be considered where this is the case. Council may also wish to consider to what extent it is prepared to use capital receipts earned after 31 March 2016 to support the revenue costs of projects to transform the organisation and agree local criteria in this approach.
58. The council has made representation to government about the use of capital receipts to fund the revenue costs of transformation projects and asked that it be allowed to use up to £5 million of the Asda receipt for this purpose; £3 million being earmarked for regeneration (economic growth) projects and £2 million for corporate transformation.
59. In the published provisional local council tax settlement the government has assumed that the council will increase its council tax by 1.99 per cent and introduce an increase of 2 per cent to fund increasing adult social care costs in each and every year of the four year settlement. Officers have therefore had to assume that Full Council will agree to these changes for at least 2016/17 as to not do so would increase the significant funding gap still further.
60. The council is able to consider increasing the council tax rate beyond the currently assumed 1.99 percent (for the council overall) but this would require a referendum which would have to take place only after the budget has been set. Any referendum would come at a significant cost to organise (estimated £100,000) and if not supported the council would also have to reissue the council tax bills. All at a time when the council's overall resource availability is extremely limited. A 10.3% increase in the Council Tax (£134.15 a year for a Band D property) would be necessary to generate revenues of £7 million and replace the reduction in government grant funding.
61. Appendix D1 summarises the decisions the council has already taken in establishing its budget for 2016/17. This identifies £12.5 million of savings agreed in the Medium Term Financial Plan in February 2015 to be achieved in 2015/16 and £10.5 million to be achieved in 2016/17. With a year's more information available it is considered that only £7.887 million of the planned savings for 2016/17 are deliverable in that time frame and the shortfall will need to be accounted for when considering other budget choices for the year.
62. Appendix D2 summarises those areas of planned changes for 2015/16 that were reported to Full Council in September 2015 as not being wholly deliverable in 2015/16 but which are assumed deliverable in 2016/17. This total amounts to £1.292 million.
63. Appendix D3 summarises the additional ongoing savings agreed by Full Council in September 2015 and which are assumed in the council's budget strategy. These savings total £2.1 million

64. Appendix D4 identifies a range of potential choices developed for consideration by Full Council to close the budget gap in 2016/17 on the basis of the council being at or close to its baseline operating position. These potential choices exemplify the extent of the budget challenge being faced by the council and many will need to be adopted if the council is to set a lawful and balanced budget for 2016/17. Further potential choices are being developed for final consideration when the council meets to set its budget in February. The starting point in identifying these potential choices has been to consider those services which the council is not legally obliged to provide although it is recognised that in many cases to cease or reduce activity in these services may increase the costs of the statutory services in the long term. Nevertheless the council has to immediately address the imminent budget gap it faces in 2016/17.
65. Taken together appendix D can be summarised by the following table:-

	Amount (£)	Amount (£)
Budget Gap 2016/17		17,386,000
<u>Planned Savings</u>		
Agreed savings in MTFP for 16/17 (D1)	-7,886,500	
Additional recurring savings (D3)	-2,100,000	
Total planned savings		-9,986,500
Balance of budget gap to identify in 16/17		7,399,500
Further choices to meet balance of budget gap (D4)		-7,168,568

66. The current budget proposition is to use £4 million from balances in 2016/17 and £1 million in 2017/18 in order to allow the time to deliver the scale of savings required and move the council to a baseline operating position. This would require budget adjustments to save a minimum of £3.369 million from the choices identified in appendix D4 to achieve a balanced budget in 2016/17.

CONSULTATION

67. The council has been in dialogue about its challenging budget position with government's Department of Communities and Local Government (DCLG) since summer 2015. Further meetings and discussions were held following the publication of the Comprehensive Spending Review and Provisional Local Government Finance Settlement. Part of the focus of these discussions has been to understand how the government might agree the council has reached the 'tipping point' where it no longer has sufficient resources to meet its legal duties. These discussions remain ongoing.

68. A meeting with Marcus Jones MP; Minister for Local Government, was held on 6 January. Facilitated by the Island's MP the council's delegation included the Leader, Leader of the main Opposition Group. Chief Executive and Head of Finance and 151 Officer. The brief sent in advance of the meeting is attached at Appendix E for information. The Minister acknowledged the challenges facing the Island and the council but was unable to commit to any additional funding for it in the finance settlement given the constraints on the national budget. He encouraged a further written response in the use of capital receipts earned before March 31 for transformation revenue projects.
69. A number of budget consultation focus groups were held in December 2015 with a range of stakeholders. Further budget consultation events are being held in January including an on-line budget questionnaire.
70. A public consultation event has been arranged at Medina Theatre on Monday 25 January when the financial challenges facing the council and the list of choices (Appendix D) will be discussed.
71. The outcomes from these will be taken into account and a summary included in the final budget report to the Executive and Full Council in February 2016.
72. There is continuing consultation with staff and unions on the overall budget. Regular meetings have been held of the Joint Consultative Meeting which comprises elected members and union representatives. Depending on the savings options developed and agreed for implementation there will need to be appropriate formal consultation with stakeholders, staff and unions. Those savings that relate to staffing may result in redundancies and the formal statutory HR1 notification.

FINANCIAL / BUDGET IMPLICATIONS

73. 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 facing that were reported as part of the Budget Review to Full Council in September and October 2015.
74. 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.
75. 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. Details of the draft capital programme for 2015/16 to 2016/17 are set out in Appendix B.

LEGAL IMPLICATIONS

76. The Council will need to set a lawful and balanced budget and Council Tax level for 2016/17 at the Full Council meeting on 24 February 2016. In developing any proposals for budget changes the necessary equality impact assessments and consultation processes will need to be followed.
77. The council has many duties which it must undertake by law. There is currently no guidance or precedent for what might happen if the council considered it had insufficient resources for it to undertake the legal duties required of it. It may be necessary for the council to seek external guidance in this regard as it develops the budget over the period of the local government settlement.
78. The council is unlikely to be able to accept any agreement for a four year settlement from government if it is uncertain that it will be able to meet its legal duties as result of the funding it will receive in any agreement.
79. 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 any areas that are likely to be the subject of savings proposals so that they can be properly worked up to allow for as much of an effect as possible in 2016/17.
80. If the totality for the scope of the proposed reduction in number of required posts and therefore potential redundancy exceeds more than 100 employees within a 90 day period 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, reported 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

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

EQUALITY AND DIVERSITY

82. 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 Equality Impact Assessment on the overall Medium-Term Financial Strategy will be set out in the final budget considerations in February 2016.

OPTIONS

83. In relation to developing the approach to the 2016/17 budget there are a number of options:
1. Agree the overall approach and strategy as set out in this report as the basis for finalising the budget strategy for 2016/17 to 2017/18.
 2. Agree the budget for 2016/17 be developed on the basis of a Council Tax increase of 3.99% and use of £4 million of available reserves with final agreement being made at Full Council in February 2016.
 3. Agree the use of the Asda capital receipt as set out in Appendix C.
 4. To identify and agree any specific further areas that should be worked up for consideration in the budget decisions in February 2016.
 5. To consider whether a Council Tax referendum should be undertaken and ask that a more detailed paper be considered on the likely impact (cost and success) as part of the final budget discussions.
 6. To not agree the overall approach and strategy as set out in this report suggest an alternative version for development and consideration by members in due course.

EVALUATION

84. For 2016/17 and beyond the council 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. These need to include options that cover both financial years rather than just 2016/17 as well as looking to the medium longer term position facing local government and the council.
85. The position in 2016/17 is particularly challenging and any use of reserves and balances in 2016/17 makes the gap to be bridged in 2017/18 higher. It is essential that choices are made now and savings options are implemented in order to meet the projected revenue budget gaps.
86. Option 1 is recommended but if there are any significant alternative budget alternatives they need to be considered now in order for them to be properly worked up for consideration at Full Council in February 2016.

RISK MANAGEMENT

87. 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 per cent – whereas the long-term borrowing rates would be around 4 per cent. Ultimately when longer-term borrowing and/or interest rates rise then additional revenue costs of £2 million+ per annum may need to be met.

88. The key risks of the 2016/17 to 2017/18 budget strategy relate to budget pressures being even higher than anticipated, government grant reductions being significantly higher than expected, 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.
89. To achieve full year effect of savings in 2016/17 budget choices (Appendix D) for savings and income have been developed and assumed timescales that enable appropriate consultation and consideration of equality impact assessments to take place.
90. It is considered that General Fund balances of at least £5 million 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 the performance management framework. The Budget and Service Review Steering Group also considers the overall budget monitoring position at each of its meetings.
91. The latest budget monitor indicates that the overall budget should not overspend in 2015/16 although this is a continuing risk. Any overspend will impact on the general fund balances and make the position in 2016/17 even worse. Management action is being taken to try and ensure that there is no overall overspend at the end of the financial year.
92. 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.

RECOMMENDATIONS

93. **That Full Council** considers the updated financial position facing the Council over the next two financial years and:-
 1. Agrees the overall approach and strategy as set out in this report as the basis for finalising the budget strategy for 2016/17 to 2017/18.
 2. Agrees the budget for 2016/17 be developed on the basis of a Council Tax increase of 3.99% and use of £4 million of available reserves with final agreement being made at Full Council in February 2016.
 3. Agrees the use of the Asda capital receipt as set out in Appendix C.

APPENDICES ATTACHED.

[Appendix A](#) – Overall projected budget position 2016/17 to 2019/20

[Appendix B](#) – 2016/17 -2017/18 draft Capital Programme

[Appendix C](#) – Recommendations on use of Asda capital receipt

[Appendix D](#) – Possible Budget Choices

[Appendix E](#) – Brief to Marcus Jones MP; Minister for Local Government

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