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Shafi Khan
Department for Communities and Local government
2 Marsham Street
London
SW1P 4DF

Dear Shafi,

Provisional Local Government Finance Settlement 2016-17 and an Offer for Future Years

Further to our meeting with the Minister Marcus Jones MP on 6 January 2016 the Isle of Wight Council is making a formal submission in response to the consultation on the Provisional Local Government Finance Settlement 2016-17 and an offer to councils for future years.

The Council has made a number of formal submissions to Government in the past year in relation to its financial challenges namely in a letter to the then Minister Kris Hopkins MP on 5 January 2015 on the 2015/16 Provisional Local Government Finance Settlement; a response to the Business Rates Review on 11 June 2015 and on the Spending Review 2015 on 3 September 2015.

Each of these responses has outlined the very acute financial challenge facing the Council and in particular its unique position as a small Island Unitary, its low economic base, its above average older population, its small savings base and the impact of the current local government finance framework that delivers completely inadequate resources to enable the delivery of adequate needs based services to Island residents and meet its statutory duties. The combination of these issues has raised the question of whether the Council will be able to fund statutory services and consequently whether it will be viable in the very near future.

The Council has been in dialogue with Government officials about the viability issue since August 2015. It is keen to understand how it can agree with Government when it has reached the ‘tipping point’ where it has insufficient resources available to meet its legal obligations. This is a matter which requires urgent clarification from Government as it would set down a clear benchmark for the Council as it contemplates significant reductions in its annual spending plans.

The Provisional Local Government Finance Settlement 2016-17 and an offer to councils for future years if implemented will make for an extremely challenging position for the Council and place it in a near impossible one. Having analysed the impact of the proposals over the four year period the Council faces a massive reduction in its Revenue Support Grant of some 89% with a 30.7% reduction in 2016/17.

After allowing for projected changes in demographics, inflation and additional resources on adult social care the Council faces a budget gap over the next four financial years of nearly £32 million. This is on top of the £50 million of ongoing savings that have already been achieved in the last 5 years. This needs to be seen in the context of a net annual budget of £124 million on all services outside of dedicated schools grant and

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housing benefits and includes a net spend of £18 million on what can loosely be called ‘discretionary’ services. Even within this £18 million there will be certain statutory duties e.g. libraries, trading standards etc. Calculations suggest that even if the Council were to remove all remaining discretionary spend and reduce statutory services to the legal minimum then it is extremely unlikely it will be able to set a lawful budget in 2017/18 that will allow the Council to meet its statutory duties

Of the projected gap of nearly £32 million 75% has to be met in 2016/17 and 2017/18. The Council is therefore planning to use 50% of its useable general fund balances, a total of £5 million across the period as a response to its financial challenge. The remaining general fund reserve of £5 million is the absolute ‘safe' minimum’ the Council must retain in case of extraordinary activities or needs.

On the specific points I set out the Council’s position as follows:-

Adult Social Care

The Council is experiencing significant increases in cost as numbers rise and people are getting frailer and more dependent leading to increased need and higher levels of care especially in acute conditions such as dementia. The proposed increase in resources from Government (£1.5 billion nationally) is back ended and the Council will only receive £100k in 20017/18, £2.2 million in 2018/19 and the full £4.2 million in 2019/20. This is also offset by a reduction in new homes bonus of £1.5 million in 2018/19 and £1.6 million in 2019/20.

In respect of the 2% council tax increase proposed for adult social care this will raise some £1.355 million in 2016/17. The Council’s latest projections of the cost of the national living wage on adult social care costs are an additional £1.8 million each year for the next four financial years and the additional costs through demographics and increased need are also estimated to increase by £1.8 million each year over the period.

The proposals in the Provisional Settlement do not address the Council’s funding gap in relation to adult social care and it cannot see how it will be able to continue to deliver its statutory duties in this area. Even with a 2% council tax increase in 2016/17 and 2017/18 the increased budget gap in adult social care by 2017/18 will be £6.622 million.

The Council therefore urges Government to ensure that recognition of service need, especially in adult social care is factored into the financial settlements for the period 2016/17 to 2019/20, AND

That Government brings forward the extra resource of £1.5 billion to start in 2016/17 and have meaningful allocations in 2016/17 and 2017/18.

Core Spending Power

Unlike in previous years, for 2016-17 Revenue Support Grant has been distributed according to local authorities Core Funding, which consists of Settlement Funding Assessment (Baseline Funding and RSG) and Council Tax Requirement. DCLG has determined control totals for each service tier (upper-tier, lower-tier, fire and rescue and GLA other services). 2016-17 RSG has then been allocated in such a way that ensures the same reduction in Core Funding for each service tier. Authorities’ Core Funding has therefore been split between tiers and the relevant cut applied to each tier. This different approach reduces the Council’s Revenue Support Grant by a further £512,000 (which effectively reduces the impact of a 2% council tax increase for adult social care to only £843,000).

The Council’s core spending power is presented as increasing from 2016/17 to 2019/20 with a slight drop in the intervening years. This gives a totally false impression of the financial position facing the Council. Firstly Council tax is assumed to not only increase by the 2% for adult social care and a general 1.75% but also by the council tax base increasing by 2% per annum. The Council’s projections of growth in the tax base are nearer to 0.5 % a year. Our estimate of council tax income for 2019/20 is therefore £5 million less than the Government’s figures.

The Care Act Grant has also been included within Revenue Support Grant and hence core spending power. The grant is there to fund additional burdens as a result of the implementation of the Care Act not as a free resource. In 2019/20 the Council’s care act grant is increased by some £564,000 and is within the core spending power figure. This, however will be to meet additional duties and burdens placed on the Council.

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The main issue, however, is that core spending power takes no account of inflation, increased need and the impact of the national living wage. Over the period 2016/17 to 2019/20 the Council's costs are projected to increase as follows

- national living wage £7.2 million
- additional adult social care need and inflation £9.2 million
- inflation contract costs, national insurance & other service costs £10.2 million

This constitutes a total of £26.6 million on top of the £25.6 million loss in grants over the same period. To offset this £52.2 million will be council tax increases of £13.9 million, additional business rates of £2.7 million and additional adult social care resource of £4.2 million leaving a gap of £ 31.4 million to bridge over the next four financial years.

The Council therefore urges Government to change the distribution methodology used that reduces its grant further by £512,000, AND

To take account of increasing costs, over which the Council has no control, as part of its overall financial settlement

Island Factor

As set out in previous responses the Island faces a number of unique challenges that, taken together with the significant reduction in funding, make the Council unsustainable in the near future and therefore unable to deliver the range of services expected by a community or to meet its statutory duties.

The separation from the mainland makes the costs of delivering services higher, makes it very difficult to attract business and grow the local economy and reduces the opportunities of sharing services with other Councils, reducing costs and implementing income generating initiatives.

As a single tier unitary the Council faces removing all discretionary services that residents in two tier areas can still expect to be provided by district councils who do not have the budget pressures associated with adults and children's services. In becoming a unitary council in 1995 the Island has already provided efficiency savings to the general public sector expenditure budget that have not yet been 'recovered' in other parts of the country where a two tier model still exists

The Government introduced a new efficiency support grant to recognise certain sparsity and rural characteristics and has set out criteria that excludes the Isle of Wight. As a whole area the Island is possibly more isolated than many of the areas in receipt of this grant and certainly faces the same if not significantly greater challenges.

The Council urges the Government to adopt criteria that take into account an island factor and enable the Council to receive additional grant support. The Council projections indicate that to make it sustainable it needs an additional on-going £15 million revenue resource.

Capital receipts flexibility to fund revenue costs of transformation

The Council welcomes the additional flexibility to use capital receipts to fund the revenue costs of transformation. The conditions applying, however, mean that only capital receipts generated after 1 April 2016 can be used. The Council has already disposed of the majority of its disposable assets as a result of the financial pressure placed upon it in recent years, however it recently received a large capital receipt on a land disposal. The level of capital receipts that could be generated in 2016/17 is likely to be low as a result of the small number of possible disposals remaining and also because land values on the Island being are lower than mainland comparator authorities.

The Council will need to change radically in trying to deliver the savings required and remain sustainable and would like to be able to use an element of the existing capital receipts to fund the cost of transformation projects and regeneration schemes that can boost its business base and therefore economy in the longer term.

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The Council urges the Government to allow the use of capital receipts earned before April 2016 for the purposes of funding revenue schemes to transform the Council and deliver economic regeneration.

Offer for a Four Year Settlement

The Council welcomes the concept of a four year guaranteed budget as it would give certainty and enable better financial planning. However because the proposed four year Provisional Settlement incorporates a very significant cut in grants and gives an absolutely certain outcome that the Council would be unable to set lawful budgets and meet its statutory duties it is not in a position to accept it.

The consultation period for the proposed changes to New Homes Bonus and the Better Care Fund both end some time after the consultation on the local government financial settlement and it is therefore unclear whether a four year deal could be offered by Government or accepted by local authorities until such time as these other consultations have completed.

It is uncertain what the alternative to a four year deal is or even if there is one.

Reducing Legal Duties

The Government could offer assistance to the Council in meeting its legal duties within the financial resources suggested in the Provisional Settlement by removing or amending some of its requirements of local government as prescribed by law, guidelines or its own inspection regimes. Examples of such changes might include:

- Introduction of local charging for the national concessionary fares scheme;

  As a tourist Island and with an above average proportion of older people the cost of the national concessionary fares scheme is nearly £5 million per year. This includes a significant cost of visitors to the Island and to offset this cost the Council proposes that the Government make changes to the scheme to allow charging for non-island residents although accepting this might have a negative impact on the visitor economy. The Council would also point out the ‘benefits’ of this national scheme are not fully available to residents of the Isle of Wight who must make a ‘paid’ boat journey to the mainland in order to use the service in other areas.

- Introduction of local charges for planning fees

  The Council currently spends almost a net £5 million a year on the service but is unable to fully recover its costs of the services for as long as planning fees are set by Government and therefore have no relationship to the demands for the service.

- Library Services

  Agree to a definition of what constitutes a, “comprehensive and efficient library services”, as set out in the Museums and Libraries Act (1964)

- Environmental Protection Act

  Review and revise minimum standards of maintenance as prescribed in the Act

Conclusions

The Provisional Local Government Financial Settlement provides a serious and significant challenge to the Isle of Wight Council placing it at or close to the point of being unsustainable as a local authority given the weight of unrealistic expectations of Government in the services the Council must provide with the money likely to be available.

Even if the Council is able to restructure itself to providing only the minimum levels of service it has to provide in law then many of the other activities which add to the quality and value of community life and the quality of place which attracts 2.2 million tourists a year will have ceased. The visitor economy is valued at over £500 million a year to the Island’s fragile economy which would be further supressed if a restructure of this order has to be undertaken in response to the Provisional Settlement. This will only increase the differential between the Island and other parts of the country where local authorities may be in a stronger

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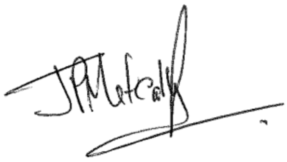
position because of location, history or circumstances (eg levels of NNDR and council tax base). Therefore the Government must consider matters of need when allocating funds under the Settlement in order to ensure that it does not add to the burdens in areas of the country with the greatest demand for services and greatest challenges in delivering economic growth as is the case for the Isle of Wight.

The Government's Provisional Financial Settlement assumes that local authorities will increase council tax by 2% to fund adult social care and 1.75% for the Council's services in general. Consequently there is no alternative but to recommend to Full Council the introduction of a council tax rise of 3.99% in order to avoid the financial gap being any greater than set out in this letter.

The Council urges the Government to take proper heed of the financial challenge facing the Council and to consider the response set out in this letter. The Council asks that Government works with it to find solutions to this challenge that enable the Isle of Wight to have a sustainable future and so the Island's community can have access to the same levels of public services available in near mainland communities and across the country.

Yours sincerely



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