



## Committee report

Committee	<b>FULL COUNCIL</b>
Date	<b>24 FEBRUARY 2016</b>
Title	<b>MEDIUM-TERM BUDGET STRATEGY 2016/17 AND 2017/18 AND COUNCIL TAX SETTING 2016/17</b>
Report of	<b>THE LEADER AND EXECUTIVE MEMBER FOR RESOURCES AND CHILDREN'S SERVICES</b>

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### EXECUTIVE SUMMARY

1. The outcomes of the Local Government Finance Settlement mean that the council must bridge a budget gap of a minimum of £16.753 million in its current spending plans to set a lawful and balanced budget for 2016/17. The previous budget gap of £17.386 million has now been reduced by £633,000 as a result of the decision of Full Council on 20 January 2016 on the Local Council Tax Support Scheme.
2. The gap arises as a result of the increasing demands for its statutory services (legal duties), the constraints on its ability to raise income as a result of Government controls and the impact of reductions in grants received from Government.
3. This paper sets out a basis to achieve a lawfully balanced Budget for 2016/17 which includes an increase of 3.99 per cent in the Isle of Wight Council element of council tax and a range of savings that can be achieved in 2016/17 to bridge the budget gap. It also proposes a strategy for dealing with 2017/18 and future years.

### INTRODUCTION

4. This report follows the report on the Comprehensive Spending Review and Provisional Local Government Finance Settlement that went to the Full Council on 20 January 2016. That report set out the impact on the council's budget position and in particular that 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) was now projected at £17.386 million.
5. The council's funding allocation in the Final Local Government Finance, published on the 8 February remained unchanged in from that provided for in the Provisional Local Government Settlement. The council did not benefit from the c£416 million of additional transitional funds and increase in the rural services delivery grant announced by government when it published the final settlement. The provision of a settlement for the four financial years 2016/17 – 2019/20 has been retained but this and includes very significant grant losses over each and every year over the period. The council has until

14 October to respond to the offer of a four year settlement although there is no indication of the alternative.

6. 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 to Full Council on 20 January 2016 set 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.
7. The report to Full Council on 20 January 2016 also set out the savings options that had been previously agreed as part of the budget strategy at Full Council in February 2015 and as part of the Budget Review agreed at Full Council on 2 September 2015 as well as a range of further potential budget savings choices to be considered in bridging the remaining budget gap.
8. Full Council on 20 January 2016 acknowledged the overall approach and strategy. Full Council did agree a new Local Council Tax Support Scheme that will deliver increased council tax income of £633,000 which reduces the revenue budget gap from £17.386 million to £16.753 million.
9. In accordance with the decision of the September 2015 meeting of the Full Council the 'informal, cross party Budget Policy and Liaison Group considered the savings options presented to the January Full Council and identified those which it felt were acceptable, unacceptable and those which required further information in order to inform a decision.

## BACKGROUND

10. 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.
11. 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.
12. 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

13. 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 £30 million. Over the next four financial years the Provisional Local Government Finance Settlement will mean a further £21 million of grant loss as well as a projected increase of £30 million in costs.
14. 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.
15. 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

## 2016/17 BUDGET AND COUNCIL TAX

16. The Final Local government Finance Settlement was received on 8 February and the final grant position reported to the Executive meeting on 11 February. As in previous years there was no change between the Provisional and Final Settlements. The council has

made a number of responses to Government over its financial position and a formal response to the Provisional Settlement was made as set out in Appendix J.

17. As a result of the final settlement the revenue Budget gap in 2016/17 is £16.753 million. This is based on incurring additional costs in 2016/17 as set out in Appendix E of £9.253 million, net grant losses of £7.066 million and a council tax increase of 3.99 per cent. However, as set out in the 20 January 2016 report to Full Council 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.
18. 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 up to £2.1 million. If this is the case it will add to the overall budget gap. At this stage some £600,000 should be met from a carryover from 2015/16 leaving a potential shortfall of £1.5 million. A final decision from the CCG is expected once it has its own funding allocations from government and is able to consider its funding options.
19. To offset this, however, there is expected to be some flexibility to use capital receipts to fund the revenue costs of transformation. Confirmation of the flexibility has not yet been received and it could also be used to fund the extra costs of external support that will be needed to deliver on transformation projects that deliver income generation and reduce costs such as in adult social care. Some flexibility should be available to fund existing budgeted revenue costs in 2016/17 such as the organisational change team and for integration. This only provides a short term solution and uses up available capital receipts to fund it. Confirmation of the specific guidance from government is still awaited.
20. In the response to the Minister the council requested to be allowed the use of up to £5 million of capital receipts earned in 2015/16 as revenue funding for transformation activities and the development of economic regeneration schemes suitable for consideration of funding by the Solent Local Enterprise Partnership (SLEP). In this regard to also give support to an approach to the Department for Transport to approve a closure order for the statutory harbour in Newport in order to accelerate its potential redevelopment (works to secure a Harbour Revision Order are already in hand but this is a much slower process).
21. In dealing with the 2016/17 revenue budget gap of £16.753 million position Full Council will need to consider the results of the budget consultation; the equality impact assessment; the impact on council tax payers of any council tax increase; the impact on services of budget savings; use of reserves and balances and its overall need to set a lawfully balanced budget.

#### Council Tax

22. As in recent years the Government have continued with a referendum level whereby any general council tax increase at 2 per cent or above requires a public referendum. In 2016/17 as part of the Comprehensive Spending Review and confirmed in the Local Government Finance Settlement councils with adult social care responsibilities can also add a further increase of up to 2 per cent without triggering a referendum. The increase

has to be separately itemised on the council tax bill and the monies raised has to be spent on adult social care.

23. If agreed by the council the 2 per cent for adult social care would increase income (net of council tax support) by some £1.36 million. Against this, as a result of the government introducing the national minimum living wage, the council faces 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 as set out in Appendix E.
24. 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.
25. 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 per cent on adult social care would cost an extra £26.83 on a Band D equivalent. Together a 3.99 per cent 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 there is some protection for families with children and for disabled claimants, partners and dependent children. For claimants classified as working age who are on low incomes they can also get support up to a maximum of 80 percent towards their council tax bills. In addition there is a targeted exceptional hardship fund to provide additional support to those most in need.
26. The council is able to consider increasing the council tax rate beyond the currently assumed 3.99 percent (for the council overall) but this would require a public 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. The indications from the budget consultation and previous surveys are that a public referendum would be unsuccessful. It is therefore not recommended.

#### Reserves and balances

27. 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. The projected available reserves and balances at 31 March 2016 totals £10.035 million as set out in Appendix F.
28. Against these available reserves and balances are a number of risks which are also highlighted in Appendix F. To make adequate provision against these risks and any unforeseen costs and liabilities that may arise a minimum of £5 million of general fund balances and useable reserves is recommended. This would leave some £5 million to be used as part of the budget strategy.

29. This assumes that there is no overall revenue overspend in 2015/16. The latest revenue budget monitor indicates a potential overspend of some £700,000. Action is continuing to be taken and it is hoped that by the end of March 2016 that the potential overspend will be eliminated.
30. Because of the substantial revenue budget gap in 2016/17 now projected at £16.753 million it is proposed that £4 million of available reserves and balances is used with a further £1 million in 2017/18 to try and smooth the savings targets required.
31. Once available reserves are spent they are gone and to go beyond this level of usage would be a significant risk and potentially lead to the council having insufficient resources in 2016/17 to meet its commitments and having to implement additional savings during the year.

#### Capital Programme and use of capital receipts

32. The proposed capital programme for 2016/17 to 2017/18 is set out in Appendix B to this report. 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.
33. 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 20 January 2016 agreed to an allocation of the capital receipt to schemes that achieve revenue savings or generate an income stream. There is still the potential, if the Government enable use of capital receipts generated prior to 31 March 2016 for the revenue costs of transformation schemes, to use some of the capital receipt to help the budget position in 2016/17 as highlighted in paragraph 17.

#### Fees and Charges

34. As part of the budget strategy the generation of income is an essential element of helping to meet the budget gap and reduce the level of cuts to services that would otherwise be required. The savings options outlined in Appendices C and D include some specific areas of proposed increases in fees and charges. In addition all fees and charges are reviewed and where practicable increased in line with inflation (RPI) or higher if market and economic factors dictate. Appendix L sets out the overall position on fees and charges as well as a detailed list of currently proposed increases.
35. There may be further opportunities to increase fees and charges and /or introduce new ones after the budget is set and as part of the budget strategy Full Council is asked to agree that fees and charges are kept under constant review and increased where appropriate during 2016/17. This will help offset any underachievement of savings in 2016/17 and provide additional savings towards the 2017/18 budget.

#### Budget savings

36. From the original list of potential savings (excluding the LCTS scheme) proposed to Full Council on 20 January the Budget and Policy Liaison Group (BPLG) identified acceptable savings of £2.761 million, unacceptable savings of £3.747 million and areas requiring more information of £1.288 million.

37. Appendix D to this report gives consideration to the outcomes of the work of the BPLG and but recommends only two categories of savings for Members' agreement being; preferred or not recommended. Taking into account the above the overall budget savings requirement in 2016/17 and the recommended savings in appendix D the budget position is summarised in the following table.

	Amount (£)	Amount (£)
Budget Gap before council Tax increase and use of reserves		<b>20,113,000</b>
General council tax increase 1.99 per cent	-1,360,000	
Adult social care 2 per cent council tax increase	-1,367,000	<b>-2,727,000</b>
Changes to Local Council Tax Support Scheme agreed at Full Council on 20 January 2016		<b><u>-633,000</u></b>
Net Budget Gap 2016/17		<b>16,753,000</b>
Use of available reserves		<b><u>-4,000,000</u></b>
<b>SAVINGS TARGET</b>		<b>12,753,000</b>
<b>Planned and previously agreed savings- Appendix C (excludes LCTS as shown separately)</b>		<b><u>9,966,000</u></b>
Remaining Gap		<b><u>2,787,000</u></b>
<b>Savings choices to select from to meet £2,787,000 remaining gap-</b>		
<b>Appendix D (total £6,690,000)</b>		
Preferred savings		<b><u>2,953,000</u></b>
Savings not recommended	3,737,000	
<b>Overall Balance</b>		<b><u>-166,000</u></b>

#### 2017/18 AND BEYOND

38. The Final Local Government Settlement includes figures for 2016/17 and indicative figures for the three financial years 2017/18 – 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 per cent. The Medium Term Financial Plan for 2016/17 to 2019/20 is set out in Appendix A.
39. This four year settlement is offered to any council that wants it on the basis that it implements an efficiency strategy each year. It has not been made clear by government what happens if a council declines the offer. The council has until the 14 October to accept this offer. Because of the scale of the grant reductions included in the offer it is felt that the council will not be in a position to accept it as it would not be able to deliver its statutory duties in the future.
40. The key assumption of government which has influenced the Final 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

41. 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.
42. 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.
43. 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 term and release resources that could be added back to reintroducing activities that seek to prevent and reduce service demand over the longer term.
44. 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.
45. This work must follow quickly once the council has agreed its lawful and balanced budget for 2016/17 and is central to creating the new 'operating model' for the council which forms a key part of the budget savings agreed in February 2015 as part of the current medium term financial plan. An important part of this model is the recruitment of both a Section 151 officer and a Director of Adult Social Services. Both posts were considered by the Employment Committee on 6 January 2016 and it resolved to recommend to Full Council that it:-
  - 45.1. Secures a partnership with a near neighbouring authority for the provisions of the Section 151 appointment under a strategic partnership agreement AND
  - 45.2. Seeks to recruit a Director of Communities and Well Being to be the Director of Adult Social Services with a strong focus on achieving integration with health services and incorporating some responsibility for 'place based services'



46. 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.
47. Setting a budget for 2017/18 will be a real challenge and following the setting of the 2016/17 budget and council tax there will be a need to undertake a detailed review of all budgets and identify remaining opportunities for making savings, generating income and doing things in a different way. This work will complete by September 2016 with the outcome of setting out a structure, service delivery and operation of the council at a minimum statutory level and provide a basis for identifying the tipping point at which the council will be unable to meet its statutory duties within the resources available to it. This will enable more robust representations to Government about securing additional support and resources which will need to continue throughout this year.
48. Concern was expressed by some Members about the replacement of 'blanket hardship support' with a targeted hardship fund in the recently approved Local Council Tax Support Scheme. This change provided a net saving to the council of c£400,000 on the scheme and was intended to provide a fairer method of allocating funds in this category of support. The budget proposals set out in paragraph 37 realises a sum of £166,000 which could be ring fenced to topping up the targeted support scheme if needed.

## CONSULTATION

49. 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.
50. These discussions remain ongoing but have confirmed that government will not enter into a meaningful dialogue with the council about its challenging budget position unless and until it has undertaken a detailed 'forensic' analysis of every area of spending and is clear which areas of spending are in excess of what the council needs in order to meet its minimum statutory requirements. This is likely to include many areas of preventative activity which can have a significant mitigating impact on the council's spending on statutory services.
51. 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 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 including the use of

capital receipts earned before March 31 for transformation revenue projects. The formal response is set out in Appendix J.

52. A number of budget consultation focus groups were held in December 2015 with a range of stakeholders. Further budget consultation events were held in January including an on-line budget questionnaire and a public consultation event was held at Medina Theatre on Monday 25 January when the financial challenges facing the council and the list of budget choices were discussed.
53. A summary of the outcomes from all of these is set out in Appendix G.
54. Throughout the consultation exercise there has been good overall recognition of the council's challenging budget position. Consultees recognised the need for the council to focus its limited and reducing financial resources on meeting its statutory obligations to the detriment of the discretionary activities the council undertakes. Nevertheless there was strong support for continued investment in discretionary areas such economic development, the public realm and libraries to be funded by reductions in adult social care costs, concessionary fares (statutory minimum), reductions in staff terms and conditions, staff pay freezes, general reductions in bureaucracy and additional income from all possible sources.
55. 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.
56. This report has been considered by the Scrutiny Committee and any recommendations will be available at the Executive meeting on 11 February and at Full Council for consideration.

#### FINANCIAL / BUDGET IMPLICATIONS

57. 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.
58. 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.
59. 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

60. The council will need to set a lawful and balanced budget and Council Tax level for 2016/17 by the statutory deadline. In developing any proposals for budget changes the

necessary equality impact assessments and consultation processes will need to be followed.

61. Members have responsibilities in relation to setting a lawful budget and the monitoring officer has sent out a separate note detailing these and the risks associated with the failure to discharge them.
62. Section 106 of the Local Government Finance Act 1992 makes it an offence for a councillor in council tax arrears (with at least two months unpaid bills) to vote at a meeting of the council where financial matters relating to council tax are being considered. It is also an offence if any such councillor present, who is aware of the arrears, fails to disclose that they are in arrears of council tax. Members must therefore ensure that if they have such arrears, that they disclose this to the meeting.
63. 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.
64. 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.
65. 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

66. 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

67. 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 is set out in Appendix H.

## OPTIONS

68. In relation 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 and council tax level for 2016/17 including the use of £4 million of available reserves and balances, a council tax increase of 3.99 % and the adoption of the preferred savings set out in appendix D.
2. Not to agree the proposed council tax increases and agree none or somewhere in between.
3. Not to agree the use of available reserves and balances and use none or a different figure.
4. Not to agree the preferred savings set out in Appendix D and substitute alternative savings options.
5. A combination of options 2,3,and 4
6. To set a council tax at a higher level than the 3.99 per cent and undertake a public referendum.
7. To agree to ring fence the sum of £166,000 in 2016/17 as a top up for the targeted hardship support element of the Local Tax Support Scheme if required.

## EVALUATION

69. Option 1 is recommended on the basis that it enables a balanced budget to be achieved for 2016/17 and reduces the need for savings in 2016/17 to a manageable level.
70. Option 2 would reduce the council's income in 2016/17 by some £2.7 million if there was no council tax increase or by some £1.34 million if just the 2 percent was added for adult social care. This would add to the budget gap. The reality of the financial challenge facing the council and the scale of grant cuts makes this an unrealistic option.
71. Option 3 of using a different level of available reserves and balances will impact on the level of savings that will need to be made in 2016/17. It is not felt appropriate or financially prudent to increase the use above the £4 million level. A reduction in use will require more of the savings in Appendix D to be taken but it will make the position in 2017/18 better. It is felt that taking all considerations into account that the £4 million use is still the appropriate level depending on the appetite to take more savings now if for example only £2 million or £3 million were used instead.
72. Option 4. Would not change the level of savings needed but would see a different set of savings being taken. As long as these are deliverable then this could be an amended option 1.
73. Option 5 is not recommended as it is felt that option 1 gives the right balance between savings council tax increase and use of available reserves and balances.
74. Option 6 is not recommended as apart from the costs and the risks it is not felt that at the level of increase required to make it worthwhile it would be successful and a failed referendum would make the council's position worse.

75. Option 7 is recommended as it would provide additional cover for the targeted hardship support scheme only to be used if required in 2016/17 but is not committing the council to any additional expenditure at this time.

## RISK MANAGEMENT

76. 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.
77. The key risks of the 2016/17 to 2017/18 budget strategy relate to budget pressures being even higher than anticipated (particularly adult social care costs), overspend in 2015/16 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.
78. To achieve full year effect of savings in 2016/17 budget savings (Appendices C and D) for savings and income have been developed and assumed timescales that enable appropriate consultation and consideration of equality impact assessments to take place.
79. 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.
80. The latest budget monitor indicates that the overall budget could overspend by some £700,000 in 2015/16. Although action continues to ensure that by the end of the financial year that this overspend is eliminated 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.
81. For 2017/18 and future years it is essential that the council identifies the necessary measures to deliver lawful, balanced and sustainable budgets. Proposals need to be developed so that the necessary decision-making processes can be followed.

## RECOMMENDATIONS

### **82. That the Executive considers;**

- (a) the Equality Impact Assessment set out in Appendix H and whether the budget proposals are consistent with it and that appropriate mitigating actions are proposed to be taken. To recommend to Full Council that it also considers all of these when making its decisions.
- (b) the outcomes of budget consultation as set out in Appendix G.

- (c) the overall financial and budget position of the Council for 2016/17 and future years as set out in the report, any recommendations from the Scrutiny Committee and **Recommends to Full Council on 24 February 2016** an overall budget and council tax strategy for 2016/17 and in particular to agree :
- (i) In principle the Medium Term Financial Plan set out in Appendix A
  - (ii) The overall Capital Programme as set out in Appendix B to this report;
  - (iii) The Treasury Management Strategy, Investment Strategy, Borrowing Strategy, Minimum Revenue Provision and Prudential Indicators as set out in Appendix I to this report;
  - (iv) A general increase in the Isle of Wight Council element of council tax for 2016/17 of 1.99 per cent
  - (v) A further additional increase in the Isle of Wight Council element of council tax for 2016/17 of 2 percent in relation to adult social care
  - (vi) The use of £4 million of available reserves and balances towards bridging the budget gap in 2016/17
  - (vii) The schedule of previously agreed savings set out in Appendix C to this report;
  - (viii) The preferred further savings required to balance the budget as highlighted in Appendix D
  - (ix) That subject to the final conditions set by the Government the use of up to £5 million of capital receipts to fund the revenue costs of transformation and to fund regeneration schemes as set out in paragraph 19.
  - (x) The Fees and Charges set out in Appendix L and that all fees and charges are kept under constant review and increased where appropriate during 2016/17.
  - (xi) The council tax resolutions for 2016/17 as set out in Appendix K.
  - (xii) To ring fence the sum of £166,000 in 2016/17 as a top up for the targeted hardship support element of the Local Tax Support Scheme if required.
- (d) Recommends to council, in the event that all precepts are not notified by the time of the council meeting on 24 February 2016 that they agree to set up a council tax setting committee with the delegated authority to consider and approve the overall budget requirement and level of council tax for 2016/17 being that element agreed by Full Council for the Isle of Wight council for 2016/17 plus the notified police precept plus the notified parish and town council precepts.

### 83. That Full Council considers

- (a.) the recommendations of the Executive held on the 11 February 2016 and in particular: the Equality Impact Assessment set out in Appendix H and whether the budget proposals are consistent with it and that appropriate mitigating actions are proposed to be taken

- (b.) the outcomes of budget consultation as set out in Appendix G.
- (c.) the overall financial and budget position of the Council for 2016/17 and future years as set out in the report and in particular to agree:
  - (i) In principle the Medium Term Financial Plan set out in Appendix A
  - (ii) The overall Capital Programme as set out in Appendix B to this report;
  - (iii) The Treasury Management Strategy, Investment Strategy, Borrowing Strategy, Minimum Revenue Provision and Prudential Indicators as set out in Appendix I to this report;
  - (iv) A general increase in the Isle of Wight Council element of council tax for 2016/17 of 1.99 per cent
  - (v) A further additional increase in the Isle of Wight Council element of council tax for 2016/17 of 2 percent in relation to adult social care
  - (vi) The use of £4 million of available reserves and balances towards bridging the budget gap in 2016/17
  - (vii) The schedule of previously agreed savings set out in Appendix C to this report;
  - (viii) The preferred further savings required to balance the budget as highlighted in Appendix D
  - (ix) That subject to the final conditions set by the Government the use of up to £5 million of capital receipts to fund the revenue costs of transformation and to fund regeneration schemes as set out in paragraph 19.
  - (x) The Fees and Charges set out in Appendix L and that all fees and charges are kept under constant review and increased where appropriate during 2016/17.
  - (xi) The council tax resolutions for 2016/17 as set out in Appendix K.
  - (xii) To ring fence the sum of £166,000 in 2016/17 as a top up for the targeted hardship support element of the Local Tax Support Scheme if required.
  - (xiii) The recommendations of the Employment Committee in respect of the recruitment of a Section 151 Officer and Director of Communities and Well Being
- (d.) that in the event that all precepts are not notified by the time of the council meeting on 24 February 2016 agreeing to set up a council tax setting committee with the delegated authority to consider and approve the overall budget requirement and level of council tax for 2016/17 being that element agreed by Full Council for the Isle of Wight council for 2016/17 plus the notified police precept plus the notified parish and town council precepts.

## APPENDICES ATTACHED.

- (i) [Appendix A](#) – Medium Term Budget Plan 2016/17 to 2019/20
- (ii) [Appendix B](#) – 2016/17 -2019/20 Capital Programme
- (iii) [Appendix C](#) – Previously agreed Budget savings 2016/17
- (iv) [Appendix D](#) – Further Budget Choices 2016/17
- (v) [Appendix E](#) – Additional Costs analysis 2016/17 to 2019/20
- (vi) [Appendix F](#) – Reserves and Balances and risk analysis
- (vii) [Appendix G](#) – Budget Consultation Outcomes
- (viii) [Appendix H](#) – Budget Equality Impact Assessment
- (ix) [Appendix I](#) – Treasury Management Strategy
- (x) [Appendix J](#) – Response to the Provisional LG Finance Settlement
- (xi) [Appendix K](#) – Council Tax Resolutions
- (xii) [Appendix L](#) – Fees and Charges

## BACKGROUND PAPERS

[Summary document explaining the details of each saving proposed](#)

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