APPENDIX 3

Isle of Wight Council

Efficiency Plan 2016/17 to 2019/20

1. Background

1.1. In response to the Local Government Sector's request to Government for increased funding certainty over the medium term, Government has made an offer to all local authorities of a guaranteed minimum grant envelope to be paid to councils for a four year period from April 2016. This is an important step to enable Local Authorities to be able to make informed plans to meet the further austerity measures announced by Government in the Comprehensive Spending Review for the period to 2020.

1.2. In return for funding certainty over the forthcoming period, Government require Local Authorities to have an Efficiency Plan in place which describes the way in which Local Authorities will approach the necessary savings required arising from the 4 year Settlement.

1.3. To take advantage of this offer, each authority is required to submit an Efficiency Plan by 14th October 2016.

1.4. This Efficiency Plan and the accompanying 4 year Settlement is important for future financial and service planning although, in itself, does not guarantee that both the cost pressures facing the Council and funding reductions from Government can be achieved through efficiencies alone without significant detriment to service provision.

2. Economic & Financial Context

2.1 The global economic downturn and subsequent recovery has had a significant detrimental effect on the public finances nationally. The overall welfare bill increased at the same time as tax revenues fell causing the national debt to rise from £0.5 trillion in 2008 to £1.5 trillion or 85% of Gross Domestic Product (GDP) currently.

2.2 Part of the response from Central Government has been to reduce spending (and funding) across the public sector. Over the past 5 years (since 2011/12), the Isle of Wight Council has faced Government funding reductions of £35m as well as having to accommodate other inflationary and unavoidable cost pressures.

2.3 Taken together, the funding reductions and other financial pressures (mainly relating to inflation, the effects of an ageing population on care services and the increased requirements for the safeguarding of vulnerable children), the Council has had to make overall savings over the 5 year of over £60m. In context, this represents circa 32% of the Council's controllable spending.

2.4 Historically Children's Services and Adult Social have received significant protection from savings. Importantly, these Portfolios account for 58% of the Council's total controllable budget from which savings can be made. With further savings over this 5 year period 2016/17 to 2020/21 forecast to be £33m (a further 25% of the Councils Controllable spend), the scale is such that the Council will no longer be able to afford the same levels of protection that has been provided in the past. Furthermore, a financial strategy that does not place sufficient emphasis on growing the income and funding base[5] of the Council will inevitably require very significant savings across all services with the incidence falling disproportionately on discretionary services.

2.5 It remains a particularly challenging time for the Council, the future savings required are significant and the risks to the delivery of savings are substantial. Uncertainty remains over future cost pressures in the essential care services as well as funding levels, particularly business rates. To deliver the scale of the savings required and to maintain the Council's financial health, the Council should regard the savings process as a continual one rather than a "once a year" planning exercise. Correspondingly, the Council may need to receive budget proposals more frequently throughout the year

2.6 The scale of future reductions announced in "Spending Review 2015" highlights the need for continued and effective medium term planning. Historically, uncertainty surrounding the phasing of reductions in central government funding to local authorities has made it harder for councils to plan strategically over the entire spending review period due to the short term funding horizons traditionally announced within the Local Government Finance Settlement each year.

2.7 The Council's rolling three year financial forecasts were comprehensively reviewed in September 2016 incorporating the funding reductions announced in "Spending Review 2015". The forecast budget deficit for the period 2016/17 to 2019/20 amounts to £27.5m as set out below.

New Medium Term Forecast 2016/17 to 2019/20

Financial Year	Current Year £m	Forecast 2017/18 £m	Forecast 2018/19 £m	Forecast 2019/20 £m
Expenditure (before savings)	153.8	166.2	170.9	177.8
Funding	147.4	145.9	146.9	150.3
In Year (Surplus) / Deficit	**6.4**	**20.3**	**24.0**	**27.5**

5 The funding base comprises Business Rates, Council Tax and Government Grant

2.8 To effectively manage the impact of such a reduction, Council approved that the required further savings, totalling £28.7m be smoothed out as follows:

Savings Requirements 2016/17 to 2019/20					
Financial Year	Current Year £m	2017/18 £m	Forecast 2018/19 £m	Forecast 2019/20 £m	Total £m
Savings Requirement	8.7	7.5	7.5	5.0	**28.7**
Cumulative Savings	**8.7**	**16.2**	**23.7**	**28.7**	

3. Efficiency Plan Framework

3.1 The Efficiency Plan set out below includes five key themes:

- Corporate Plan
- Medium Term Financial Strategy to delivering efficiencies and revenue savings to achieve £28.7m in savings over the remaining spending review period 2016/17 to 2019/20
- Partnership working
- Capital Strategy (including Prudential Borrowing)
- Financial Resilience and Managing Risk

4. Corporate Plan

4.1. The Isle of Wight Council has a clear vision for the Island and four key priorities which support the vision, as set out below. There are a number of outcomes (set out below) that the council and its partners aim to deliver which are supported by a further set of delivery outcomes.

4.2. The Council's Vision is to be:

"A great place to live, work and visit"

4.3. Supporting that vision are the Council's Corporate priorities:

- Supporting growth in the economy, making the Island a better place and keeping it safe
- Keeping children safe and improving their education
- Protecting the most vulnerable with Health and Social Care, investing in support, prevention and continuing care
- Ensuring that all the resources available to the Island are used in the most effective way in achieving the Island’s priorities

4.4 The common thread throughout the Council's Plans and strategies are themes associated with supporting the Island economy, improving education, safeguarding the vulnerable, transforming public services and cost effective service delivery.

5. Medium Term Financial Strategy

5.1. The Isle of Wight Council has a proven track record of delivering savings and efficiencies.

- In the five years to 2015/16 it has delivered savings totalling £52m,
- Has implemented further efficiencies and savings totalling £8m in 2016/17
- Is currently developing additional savings and efficiencies proposals totalling £20m over the 3 year period to 2019/2020.

5.2. The Council is therefore currently planning to have achieved savings and efficiencies of £80m by the end of 2019/20.

5.3. The Medium Term Financial Strategy sets out the high level financial objectives that the Council wishes to fulfil and underpins the budget setting process for the forthcoming year and over the strategy period.

5.4. As the Council's high level financial planning tool, the strategy is reviewed and updated at least annually and is regularly reviewed by the Management Team.

5.5. The Council also has the opportunity through its capital programme and borrowing powers to invest both in the regeneration of the Island (to raise the prosperity generally as well as improving the Council's financial position) and cost reduction schemes for the Council itself.

5.6. The Medium Term Financial Strategy, which seeks to achieve these aspirations whilst delivering the necessary savings of £8.7m in 2016/17 and a further £20m over the period 2017/18 to 2019/20 is presented in outline below:

OVERALL AIM

"In year" expenditure matches "in year" income over the medium term whilst regenerating the Island Economy and providing essential Value for Money services for our Businesses and Residents

THEMES

SHORT TERM

Theme 1 - Create Financial and Operating Capacity to Transform

Theme 2 - Increasing Efficiency & Effectiveness

SHORT & MEDIUM TERM

Theme 3 - Entrepreneurial, Commercial and Collaborative Activities (with managed risk)

Theme 4 - Withdraw from or offer Minimal Provision for Low Impact Services

Theme 5 - Improving the Island Economy

MEDIUM & LONGER TERM

Theme 6 - Public Service Transformation

5.7. The strategy has a strong "alternative to cuts" focus, concentrating heavily on improving the Island economy as a means to stimulate growth generally, reduce the dependency of residents on Council Services to enable service reductions to be made but also to improve the Council's funding from Business Rates and Council Tax. Importantly, the strategy also seeks to improve the commercialisation of the Council and support the transformation of Public Services.

6. Partnership Working

6.1. The Council embraces the benefits of Partnership working in terms of cost, capacity and overall resilience. This results in better outcomes for service users from:

- Improved strategic planning and priority setting
- Access to, and enhancement of, staff skills and experience
- Better use of information and evidence
- Sharing of costs and risks

6.2. The Council already experiences these benefits from a number of established strategic partnerships and shared service arrangements along with the sharing of senior staff between organisations. Examples of arrangements already entered into by the Council include:

- Partnership with Hampshire County Council for the provision of Children's Services
- Partnership with Hampshire Fire and Rescue Services for the provision of those services on the Island
- An arrangement with Portsmouth City Council to share the Section 151 Officer and provide Strategic Financial advice
- Transfers of a number of community services to Parish Councils

6.3. The Council will continue to seek opportunities to extend current partnership working with other public sector partners that provide innovative, efficient and cost effective services to residents and visitors to the Island. Equally, it will continue to work with partner agencies and businesses to promote and facilitate economic growth.

7. Capital Strategy

7.1. The Council also has the opportunity through its capital programme (and borrowing powers) to support its Medium Term Financial Strategy by investing in:

- Regeneration of the Island (to raise prosperity generally as well as improving the Council's financial position)
- Schemes that can provide an income to the Council
- Schemes that can reduce the cost base of the Council

7.2. The Council has adopted a Capital Strategy with a particular focus on the continued delivery of essential services but with equal emphasis on meeting the austerity and savings challenge facing the Council. The Capital Strategy is a high level plan that sets out the Council's approach to capital investment over the short, medium and long term. The Capital Strategy sets out the key capital investment plans over the next ten years that are required to deliver the Council's objectives as well as setting the financial framework and planning process to support their delivery.

7.3. The following categories of schemes are priorities for attracting capital funding:

- **Category 1 -** Programmes of a recurring nature that are essential to maintain operational effectiveness
- **Category 2 -** Specific schemes that:
  - Have a significant catalytic potential to unlock the regeneration of the Island
  - Are significant in terms of the Council strategies that they serve
  - Are significantly efficiency generating
  - If not implemented would cause severe disruption to Service delivery

7.4. In accordance with the Capital Strategy and Medium Term Financial Strategy the Council will continue to prioritise those schemes that meet the Council's statutory responsibilities and those that are most likely to drive cost reduction for the Council and economic growth for the Island.

7.5. The 2016/17 Local Government Finance Settlement confirmed that it would allow councils the flexibility in 2016/17, 2017/18 and 2018/19 to use capital receipts to fund revenue costs of service reform and transformation that generates ongoing revenue savings in the delivery of public services.

7.6. Whilst the Council welcomes the new flexibility in the use of capital receipts, the Council has set aside some revenue funding for transformation schemes within its Transformation Reserve and will seek to do so over the short to medium term. This will enable capital receipts to continue to be used to fulfil the Council's Capital Strategy to drive the economic growth of the Island and "invest to save" schemes for the Council, but will continue to bear this flexibility in mind as opportunities to generate savings are explored and progressed.

7.7. Prudential Borrowing is an important source of financing available to the Council in meeting the savings challenge. To take advantage of this borrowing, Local Authorities must comply with the Prudential Code for Capital Finance. The key objective of the Prudential Code is to ensure that the capital investment plans of local authorities are Affordable, Prudent and Sustainable. The Prudential Code sets out a governance procedure for those matters as follows:

- Affordability e.g. implications for Council Tax and Council housing rents
- Prudence and Sustainability e.g. implications of external borrowing

- Value for money e.g. options appraisal
- Stewardship of assets e.g. asset management planning
- Service objectives e.g. strategic planning for the authority
- Practicality e.g. achievability of the forward plan

7.8. The Council will continue to pay close regard to this governance procedure when determining the most appropriate methodology of capital financing.

7.9. Prudential Borrowing requires that the capital investment of the Council remains within sustainable limits and that the revenue consequences, including both debt financing and other revenue costs, are affordable over the long term. In considering the affordability of its Capital plans, the Council will consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years as a minimum. The Council will also consider known significant variations beyond this timeframe and pay due regard to risk and uncertainty.

8. Financial Resilience and Managing Risk

8.1. In accordance with Best Practice, the level and nature of all revenue reserves and balances are reviewed each year during the formulation of the revenue budget and medium term financial forecast. The review identifies and assesses all of the Council's potential financial risks over the forecast period in order to determine the prudent level of minimum balances that should be retained, based on the Council's risk profile. Each risk is considered alongside the probability of it happening in arriving at the minimum level of balances.

8.2. The outcome of the most recent review, considered by Council at its meeting in February 2016, identified that a prudent minimum level of balances in 2016/17 should be £5m. Revenue balances as at 31st March 2017 are forecast to be £9.6m. This amount is needed in order to retain funds which will be used to smooth the phasing of savings required over the period of the Medium Term Financial Forecast. Reserves are set to reduce to near minimum levels for 2017/18 and 2018/19 as they are used to offset the scale of the annual deficits between spending and funding. This will provide for a more managed programme of savings, income generation and funding improvement initiatives to be implemented.

8.3. The Council is pursuing a number of initiatives that will rely temporarily on the use of the Council's reserves generally in order to deliver them in a more cost efficient way (i.e. as opposed to borrowing). In the current climate where borrowing rates are significantly greater than investment rates, it makes financial sense to utilise Reserves (that would otherwise be invested until required) and defer any borrowing decisions to a later date as investment rates recover. Retaining Reserves is an important element in minimising the overall cost of the Council's debt.

8.4. In order to meet the challenging financial circumstances facing the Council it has set in place a suite of Financial Regulations which encourages responsible spending, removes financial barriers to the delivery of savings and promotes medium term financial and service planning whilst providing Services with good levels of financial autonomy.

8.5. The Council also holds a number of Earmarked Reserves in order to:

i) Provide for future known liabilities such as the Highways PFI Reserve

ii) Provide for likely future liabilities including the Insurance & Risk Reserve

iii) Provide for transformation and spend to save schemes though the Transformation Reserve (see below)

8.6. The Transformation Reserve was established to support transformational activity to be utilised according to the following criteria:

- Any proposal must have a payback of 4 years or less (i.e. the cumulative saving over 4 years must exceed the amount drawn from the fund

- The proposal is for non-recurrent spending and the Reserve is not to be used as an on-going source of funding

- A proposal can be for:

    - A "Spend / Invest to Save" Scheme (Revenue or Capital)

    - A "Spend to Avoid Cost" scheme (Revenue or Capital)

    - A feasibility study where, after preliminary investigations, it is likely to result in a significant saving with at least a 4 year payback

    - One-off redundancy costs arising from proposed savings, where other redundancy provisions are not available or are exhausted

8.7. Additionally, the Council makes central contingency provision within its annual revenue budget for both costs of uncertain amount and/or uncertain timing as well as provision for potential non achievement or delay in the implementation of savings proposals.

9. Summary

9.1. By the end of 2016/17 the Council will have implemented revenue savings totalling £60m. However, the Council continues to face a particularly challenging financial climate, the future savings requirement totalling £20m over the three financial years to 2019/20 is significant and the risks to the delivery of savings are substantial. Uncertainty remains over future cost pressures in the essential care services as well as funding levels, particularly in relation to Business Rates.

9.2. The Efficiency Plan set out above summarises Council strategies, frameworks and policies which form a co-ordinated and cohesive package of measures.

9.3. The Corporate Plan sets the strategic context of how the Council plans to shape the Island so that all residents have the opportunity to live the best lives possible.

9.4. The overarching Medium Term Financial Strategy sets out how available revenue and capital resources are utilised with the stated aim that:

"In year" expenditure matches "in year" income over the medium term whilst regenerating the Island Economy and providing essential Value for Money services for our Businesses and Residents"

9.5 This Medium Term Financial Strategy is underpinned by a suite of Financial Regulations which encourages responsible spending, removes financial barriers to the delivery of savings and promotes medium term financial planning whilst providing services with a good degree of financial flexibility and autonomy.

9.5. Financial resilience is assured through the identification and assessment of potential financial risks over the forecast period and the establishment of minimum levels of reserves based on that risk assessment as well as a central contingency provision for known liabilities of unknown cost or timing. In addition, the Council maintains Earmarked Reserves for some of its most significant future liabilities. By the end of 2016/17 General Reserves are forecast to exceed the assessed minimum level by £4.6m. This amount will be used to smooth the phasing of savings and to provide a level of comfort against future financial uncertainties.