**PAPER B**

Purpose: For Decision

# Committee report

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| Committee | **FULL COUNCIL** |
| Date | **19 OCTOBER 2016** |
| Title | **MEDIUM TERM FINANCIAL STRATEGY 2016/17 to 2020/21 AND EFFICIENCY PLAN** |
| Report to | **LEADER AND EXECUTIVE MEMBER FOR RESOURCES, ORGANISATIONAL CHANGE AND CHILDREN'S SERVICES** |

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## EXECUTIVE SUMMARY

1. These are unprecedented times in the history of Local Government funding. The global economic downturn and subsequent recovery has had a significant detrimental effect on the public finances nationally and the Government has responded by attempting to stimulate economic growth but at the same time reducing public spending and therefore funding to Local Authorities.

2. Reduced funding and increased costs in essential care Services, which consume the largest proportion of the Council's controllable spend (58%), has required the Council to make over £60m in savings over the past 5 years. Looking forward across the next 4 Year period, a further £24m of savings through either service reduction, income generation or improved funding will be required in order to balance the budget over the medium term.

3. The financial challenge is the single biggest risk to sustainable public services on the Island. Accordingly, the Council needs to resolutely maximise the deployment of the resources that it does have (Revenue, Capital, Property and Staff) towards driving additional income / funding and cost savings to secure Council Services for the future.

4. The Medium Term Financial Strategy proposed for approval sets the Council's Savings Requirements for both the current year and the next financial year as well as forecasting indicative Savings Requirements for a further 3 years into the future to 2020/21. Accompanying these savings requirements is a detailed financial plan to respond to the financial challenge plus proposals to strengthen the Council's financial framework in order to support its delivery.

5. The Medium Term Financial Strategy and underpinning Financial Framework have been designed as a cohesive package of measures rather than a menu of options. In summary terms it aims to:

- Reduce the overall quantum of savings required over the short and medium term - to "buy time" to allow the opportunity for growth in the economy to take effect and for the Government's "Fairer Funding" review to be implemented

- "Smooth out" the required savings such that the incidence of "front loading" of the savings is minimised to enable the Council to maximise its operational capacity to implement initiatives at pace which are aimed at increasing income / funding and reducing costs

- Improve the overall financial resilience of the Council by removing non deliverable approved savings from the budget and seeking to rebuild General Reserves over the medium term

- Ensure that funding is available to enable, or "pump prime" Spend to Save (Revenue) and Invest to Save (Capital) schemes through the creation of a new Transformation Reserve

- Maximise the Capital Resources available to the Council and exploit opportunities for Prudential Borrowing where they are underpinned by strong business cases for Capital Investment; recognising that the targeted use of the Capital Programme can stimulate economic regeneration, jobs and housing with consequent positive effects on Council funding as well as reduce costs

- Target the other resources and assets of the Council (e.g. Property, Land, IT and Staff) towards regeneration and transformational change to public services

- Embed a Financial Framework that:

  - ➢ Promotes longer term financial planning

  - ➢ Encourages responsible spending

  - ➢ Improves financial decision making

  - ➢ Better aligns the responsibility for the delivery of services with the financial accountability for those services and improves the financial discipline of the Council

6. The key measures within the Strategy to meet these aims include the following:

   (i) A re-phasing of the Council's debt financing obligations with an associated saving commencing at £2.0m per annum

   (ii) A "Debt Repayment Holiday" for 5 and a half years amounting to between £7m and £8m per annum

(iii) Reduction in the Savings Requirement for the current year to £8.7m (compared to the currently approved savings requirement of £12.8m)

(iv) An overall reduction in the Savings Requirement over the 4 Year period 2016/17 to 2019/20 of £6.5m but with a significant reduction in the current financial year and next financial year.

(v) Make permanent the decisions taken by Council on the 20 July 2016 relating to the appointment of a Director of Regeneration and related support staff (i.e. extending it beyond the current 2 year approval)

(vi) Make permanent the proposal to remove the £3m saving to the Council's Operating Model (i.e. extending it beyond the current 2 year approval)

(vii) A series of other Budget Adjustments for non deliverable / speculative savings targets Creation a £1m Transformation Reserve

(viii) Maximisation of Capital Resources by:

- Keeping the ASDA receipt intact at £17.5m, making it available for future capital investment

- Removing all ring-fencing of capital funding where possible in order that the prioritisation of Capital Investment can take place unhindered in accordance with the Strategy

- Initiating a review of all currently approved but contractually uncommitted Capital Schemes which are relying on non ring-fenced capital funding (as defined by regulation) are withdrawn from the Capital Programme and the associated funding pooled and considered alongside all other competing priorities for Capital Investment as part of the forthcoming budget process

- Exploiting opportunities for Prudential Borrowing where the associated Capital Investment is underpinned by strong business cases

(ix) Builds General Balances beyond the minimum level from 2019/20 onwards

7. It is also proposed that the Council accepts the Government’s 4 Year Funding Settlement Offer. Whilst, the offer relates to just 20% (falling to 13% over the period of the 4 Year period) of the Council's overall funding base, it is still a meaningful proportion. The alternative would be to accept annual funding settlements which are likely to be more exposed to a reduction. In order to take advantage of the Offer, the Council must publish an Efficiency Plan by 14 October 2016. This is attached at Appendix 3 and makes clear that the Plan, 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.

8. Approval of the proposed new Medium Term Financial Strategy with its associated Savings Requirements, the underpinning Financial Framework and the Efficiency Plan will provide the Council with the direction necessary to maximise the opportunity to meet the financial challenge that it faces as well as putting the Council's Budget on a sound footing for the future.

## ECONOMIC AND FINANCIAL CONTEXT

9. 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.

10. 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.

11. 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 years of over £60m. In context, this represents circa 32% of the Council's controllable spending.

12. Historically Children's Services and Adult Social Services 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 the 5 year period 2016/17 to 2020/21 forecast to be in the order of £33m (a further 25% of the Council’s 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[1] of the Council will inevitably require very significant savings across all services with the incidence falling disproportionately on discretionary services.

## EXISTING MEDIUM TERM FINANCIAL STRATEGY

13. The Council's existing Medium Term Financial Strategy was approved in February 2016. This was described as follows:

- Direct the resources available to the council to meeting the council’s statutory duties, achieving the vision and the outcomes required under the Corporate Plan priorities.

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

- 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

14. This strategy was designed to make progress against the forecast savings requirement of £35.2m over the 4 year period 2016/17 to 2019/20 as set out below and exhausting the Council's available Reserves by the end of 2017/18.

| ***Financial Year*** | ***Underlying Budget Deficit £m*** | ***Annual Savings Requirement £m*** | ***Total Savings Requirement £m*** |
|---|---|---|---|
| ***2016/17*** | 16.8 | **12.8** | 12.8 |
| ***2017/18*** | 26.3 | **12.5** | 25.3 |
| ***2018/19*** | 31.4 | **6.1** | 31.4 |
| ***2019/20*** | 35.2 | **3.8** | 35.2 |

15. Whilst this strategy was approved relatively recently and many of its features will endure through any financial strategy, the Administration have undertaken a comprehensive review of the current strategy with the intent of the following:

- Extending the overall planning horizon from a 2 year strategy to a 5 year strategy

- A much stronger emphasis on creating a prosperous and sustainable Island community built on the pillars of regeneration, growth and productivity, which in turn will have a positive impact on the Council's funding base as well as reducing the need for Council services

- Become a more entrepreneurial and commercial Council as a means to generate income and avoid service reductions

- A stronger drive to Public Service Transformation in order to improve services and outcomes for service users as well as reducing duplication and cost

- Addressing the unique 'Island Factors' of, self sufficiency, premium pricing and dislocation, which permeate through the whole financial system for the Council and impact on the costs of providing local authority services

- Improving the overall financial resilience of the Council over the medium term

16. A new Medium Term Financial Strategy is proposed as part of this report and described in later sections.

MEDIUM TERM FINANCIAL STRATEGY 2016/17 TO 2020/21

17. The financial challenge is the single biggest risk to sustainable public services on the Island. Accordingly the Council needs to resolutely maximise the deployment of the resources that it does have (Revenue, Capital, Property and Staff) towards driving additional income / funding and cost savings to secure Services for the future.

18. Whilst set within the Council's overall Corporate Plan, the Council's Medium Term Financial Strategy requires its own particular focus. The Administration propose that it be articulated through the following overall aim:

***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*

19. The proposed Strategy of the Administration has been developed to increase the overall financial capacity so that it has the necessary operational capacity to deliver the necessary initiatives and transformation that will yield financial savings over the short, medium and longer term.

Medium Term Financial Strategy

20. The Medium Term Financial Strategy should be set in the context of the overall Local Government Finance system. Over the past 4 years, and including the current year, the emphasis of the Local Government Funding system has changed considerably. There are now clear financial incentives for Local Authorities to promote business growth, increase the number of homes and increase employment. This is illustrated by the following:

- The Business Rates retention scheme allows the Council to retain circa £194,000 for every 1% increase in Business Rate growth. Equally, the Council will lose £194,000 for every 1% decline in the Business Rate base

- Between "resets"[2] of the Local Government Funding methodology, the Council retains all increases in Council Tax. For every 1% increase, the Council will receive an additional £711,000

- For every new home built, the Council is able to retain circa £1,267 p.a. in New Homes Bonus grant for a period of 6 years[3]

- The risk of increased numbers of households requiring financial support to pay their Council Tax (formerly Council Tax Benefit) falls on the Council. The Council therefore will be worse off if caseloads increase and better off if caseloads fall. The estimated value of the Council Tax support for 2016/17 is £9.6m. Each 1% change therefore will represent a cost / saving of £96,000.

It is important therefore that when the Council is developing policy and strategy and making its decisions, particularly relating to the Capital Programme, that it is cognisant of these financial incentives.

21. The proposed Medium Term Financial Strategy is attached at Appendix 1. It sets out a number of both generic plans and detailed activities within themes across the short, medium and longer term.

22. The strategy takes a holistic approach to the financial challenge facing the Council, now forecast to be an overall deficit of £33m over the next 5 years compared with the previous forecast of £35m over the next 4 years. It is very deliberately targeted to provide short term viability whilst plans can be implemented which will support longer term sustainability and therefore maximise the opportunity to protect Council Services in the future.

23. The overall approach is characterised by the following:

- Reducing the overall quantum of savings required over the short and medium term - to "buy time" to allow the opportunity for growth in the

2 The next reset will take place in 2020 as part of the "Fairer Funding review"
3 Subject to a current consultation and expected to reduce to 4 years in order to achieve a savings of £593m nationally to redirect into the improved Better Care Fund

economy to take effect and for the Government's "Fairer Funding" review to be implemented, both of which are anticipated to improve the Council's funding base

- "Smooth out" the required savings such that the incidence of "front loading" of the savings is minimised and therefore the Council maximises its operational capacity to implement initiatives at pace aimed at increasing income / funding and reducing costs

- Improving the overall financial resilience of the Council by:

  - Adjusting the budget and budget forecast for savings targets that are now considered undeliverable

  - Repairing the level of General Reserves over the medium term to enable the Council to respond to opportunities that may arise which require funding or to be sufficiently resilient to "financial shocks" which would otherwise result in sharp and drastic cuts to public services

- Ensure that funding is available to enable, or "pump prime" Spend to Save (Revenue) and Invest to Save (Capital) schemes and that financial barriers to such opportunities are removed. Specifically, this will involve setting funding aside in a new Transformation Reserve.

- Maximise the Capital Resources available to the Council and exploit opportunities for Prudential Borrowing where they are underpinned by strong business cases for Capital Investment; recognising that the targeted use of the Capital Programme can stimulate economic regeneration, jobs and housing with consequent positive effects on Council funding and reduced costs. Also that targeted Capital Investment can be used to transform Council Services in a way that both improves service and reduces costs through better integration and use of technology.

- Targeting the other resources and assets of the Council (e.g. Property, Land, IT and Staff) towards regeneration and transformational change to public services

- Embed a Financial Framework that:

  - Promotes longer term financial planning

  - Encourages responsible spending

  - Improves financial decision making

  - Better aligns responsibility for the delivery of services with the financial accountability for those services and improves the financial discipline of the Council

24. The six themes, with some highlighted plans are summarised below:

**SHORT TERM**

**Theme 1 - Create Financial and Operating Capacity to Transform**

- Re-profile debt repayment provision
- Provide a £1m Transformation Reserve to "pump prime" future transformation
- Invest in Regeneration team to lever additional capital funding
- Maximise and re-prioritise Capital Resources for Invest to Save and Regeneration Schemes to:
  - Reduce cost
  - Support jobs and business growth (increase Business Rates & Council Tax)
  - Improve prosperity and reduce demand for Council Services

**SHORT TERM**

**Theme 2 - Increasing Efficiency & Effectiveness**

- Forensic review of cost and income opportunities
- Smart, lean and evidence based commissioning - providing for actual Need rather than perceived Need or Want
- Targeted Capital Investment - towards improving income / funding and reducing cost
- Support the Voluntary Sector to provide appropriate Council Services
- Policy driven fees and charging regime e.g. full cost recovery for non-essential services

**SHORT & MEDIUM TERM**

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

- Create a £100m Commercial Property Acquisition Fund aimed at maximising return with managed risk
- Invest via equity or debt in joint ventures where the Island has either a competitive advantage or unique attraction
- Investigate the creation of a tax efficient trading company structure founded on a robust business case where the Council can provide Services at a profit and scale
- Review the case for directly providing Social Housing and/or affordable Housing and the alternative legal entities for delivery
- Expand strategic partnerships with mainland Councils to fill skill shortages, improve resilience or take advantage of lower cost service provision

**SHORT & MEDIUM TERM**

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

- Re-prioritise Service provision away from Low Impact Services by:
  - Identifying low impact services through public consultation
  - Identifying low impact services through evidence based research

**SHORT & MEDIUM TERM**

**Theme 5 - Improving the Island Economy**

- Pursue the Solent Combined Authority Deal to secure a share of £30m p.a. infrastructure funding to support productivity, new jobs, new housing and design skills provision to meet current and new employers needs.
- Pursue a £15m IOW Economic Growth Package through the Local Growth Deal 3 to increase productivity and employment on the Island
- Pursue the "One Public Estate" initiative to identify Public Sector sites suitable for development
- Strategic review of property assets aimed at providing sites for regeneration
- Capital Investment prioritised towards economic growth (e.g. strategic transport infrastructure, acquisition of regeneration sites and employment site viability)
- Capital Investment targeted towards supporting unviable housing development sites

**MEDIUM TERM & LONGER TERM**

**Theme 6 - Public Service Transformation**

- Establish an accommodation strategy for Adult Social Care aimed at matching need with appropriate provision (e.g. including additional Extra Care Housing). Also to ensure an appropriate mix of in house and private sector care provision to enhance competition in the sector
- Pursue Health and Social Care integration
- Re-direct resources to preventative services to avoid greater costs downstream
- Use technology and digital solutions to provide greater personal independence
- Support improved choice for all people purchasing care

Financial Framework

25. To provide the maximum opportunity for the Financial Strategy to succeed, it is important that it is underpinned by a process which promotes strong financial planning, encourages responsible and targeted spending and is backed by strong informed decisions and proper financial accountability.

26. The proposed Medium Term Financial Strategy is proposed to be underpinned by a framework as described below:

# FINANCIAL FRAMEWORK

## FINANCIAL PLANNING

- Medium Term Financial Forecasting - refreshed annually
- Annual Capital Planning process to provide informed prioritisation
- Consistent planning horizons for Capital Resources and Capital Spending
- No ring-fencing of revenue and capital funding (except where required by statute)
- Prudential borrowing for "Invest to Save" or "Invest to Avoid Cost" only

## ACCOUNTABILITY & DECISION MAKING

- Revenue & Capital Budgets allocated at Portfolio level to align with Service responsibility
- Primary responsibility for managing spend within budget (Capital & Revenue) rests with the relevant Executive Member

## RESILIENCE & RESPONSIVENESS

- Build General Reserves over the medium term to guard against risk of "financial shocks" and improve the ability to respond to opportunities
- Create a separate "Transformation Reserve" with strict criteria
- A relevant proportion of Capital Resources "held back" for contingent items or potential match funding opportunities to lever additional funding

27. Many aspects of this framework are already in place. Adoption of the Financial Framework in its entirety is, however, important to the success of the Financial Strategy. Some of its features are worth expansion and are set out below:

- Capital Programme Planning:
    - o To maximise the resources available for Capital and ensure that they are properly targeted as a means to support regeneration activities and cost reduction schemes, ring-fencing must be removed. Ring-fencing regimes can lead to sub-optimal decisions with capital resources not being considered against all other competing priorities for investment and potential significant opportunities being overlooked

- o Additionally, it is important that the Capital Planning process takes place at a defined period (annually) so that all capital resources can be considered against all competing priorities, rather than ad hoc decision making which can have the effect of capital schemes being approved at the expense of other opportunities with better outcomes.

- o Mechanisms to accommodate very important capital investment opportunities that may arise outside the annual Capital Planning process are provided for either by Prudential Borrowing and "holding back" capital resources

- Transformation Reserve:

  - o The establishment of a Transformation Reserve and a strategy for its replenishment is a vitally important vehicle to enable "Spend to Save" schemes. Often, transformation schemes aimed at significant cost reduction will be of a scale and complexity that require up front resources, especially if they are to proceed at pace. A Transformation Reserve will provide a mechanism to accommodate this and ensure that financial obstacles to delivery are minimised

  - o If the Transformation Reserve is to endure and continue to be a vehicle to drive cost reduction, there will need to be a strategy for its replenishment. A planned contribution from the Revenue Budget would ordinarily be the mechanism for replenishment. However, over the first 2 years of the new Financial Strategy the Reserve may be sufficient but the need to minimise the savings requirements is paramount. It is therefore proposed that, rather than a planned replenishment from a contribution from the Revenue Budget (which would require the savings to be increased), any underspendings at year end (after approved carry forwards) are transferred into the Reserve.

  - o The Transformation Reserve is limited to £1m and without a rationing based criteria for its use, it is likely that it will be over-subscribed and will not maximise the potential savings over time. It is proposed therefore that the criteria for the use of the Reserve are as follows:

    - ➢ 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

- General Reserves:

  o Over time, the Council as part of previous Budget Strategies has drawn its General Reserves to near minimum levels. Whilst this can be a useful short-term strategy to "smooth out" budget gaps, it has the effect of leaving the Council exposed to "financial shocks" which, in turn, could require the Council to make serious reductions in service very quickly in order to maintain a "Balanced Budget". Additionally, a lack of General Reserves will also exclude the Council from being able to take advantage of opportunities as they arise. The use of Reserves to minimum levels can be a useful short term strategy to protect Services whilst savings are implemented, it is proposed that from 2018/19 (or earlier if opportunities arise) the opportunity to re-build General Reserves to a reasonable level above the minimum should be pursued for the reasons set out.

28. It is proposed that the financial framework described above is approved as part of the new Medium Term Financial Strategy.

<u>Financial Review and New Medium Term Financial Forecast</u>

29. As part of the development of the new Medium Term Financial Strategy, the financial parameters (or revised deficit) which the Strategy is intended to deliver against has been comprehensively reviewed. As previously mentioned, this has been undertaken with the aim of:

a) Extending the savings period

b) Reducing the overall quantum of savings required over the short and medium term

c) "Smoothing out" the savings such that the "front loading" impact is reduced in order to "buy time" for plans and initiatives to take effect

30. In considering a new Medium Term Financial Strategy for the Council the following have been comprehensively reviewed:

- The Council's Current Financial Standing - including reserves, other assets such as land and property and the strength of the Council's funding base[4]

- The key cost assumptions underpinning the original £35m Savings Requirements of the Council such as inflation and demographic pressures

- The achievability of currently approved savings

- Opportunities to increase the financial capacity of the Council, both Revenue and Capital

- The corresponding forecast deficit and the phasing of the associated Savings Requirements

31. It is clear from the review that to achieve £35m over 4 years which was "front loaded" with £26m of those savings required in 2016/17 and 2017/18 (or 20% of controllable spend) was an extremely challenging prospect for the Council and would have required very significant reductions across all services including both Children's Services and Adult Social Care. Furthermore, the reductions were such that the staffing capacity to deliver the "Alternatives to Cuts" such as efficiencies, transformational change and income generation through innovation would also be part of those reductions and therefore compromise the ability of the Strategy to succeed.

32. The Council has reduced its level of General Reserves to close to the minimum level required for an authority of its size and risk profile, and equally it does not have a significant land and property base from which it could realise additional funding. Whilst there will inevitably be some opportunities to continue to rationalise the Council's asset base and potentially release assets for regeneration, in the short-term the release of property and land is not a realistic proposition to improve the financial capacity of the Council.

33. A fundamental review of the cost assumptions contained within the Council's forecasts (that were underpinning the original forecast deficit of £35m) has been undertaken. These have been revised and now form part of a new financial forecast that has been extended to cover the 5 year period 2016/17 to 2020/21.

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

Creating Financial Capacity to enable Operational Capacity and drive Transformation

34. To respond to the financial challenge facing the Council, the broad focus has been twofold:

    (i) Identify opportunities to reduce revenue costs in order to reduce the previously approved savings and create the operational capacity to implement savings initiatives

    (ii) Maximise the Capital Resources as a means to provide funding for Invest to Save and Regeneration aimed at improving both the Island Economy and the Council's funding base

35. To be able to reduce the revenue savings requirements and "smooth out" those savings at a reduced amount and over a longer period of time as intended, attention has focussed on opportunities for re-profiling the sums that the Council is required to set aside for the repayment of Debt.

36. Providing for sums to be set aside for the repayment of debt, known as "Minimum Revenue Provision (MRP), is an extremely technical area of Local Authority Accounting. The statutory guidance prescribes that the Local Authority needs to set aside a "prudent amount" and until recently, the Local Government Sector has interpreted this as being restricted to the options provided within the regulations as follows:

    (i) The Regulatory method
    (ii) The Capital Financing Requirement method
    (iii) The Depreciation method
    (iv) The Equal Instalment of Principle method
    (v) The Annuity Method

    Within the regulations, each of the options above is described as appropriate for different circumstances, with the intention to match the costs of debt broadly with the benefits that are derived from the assets that the debt is financing. For example, the Equal Instalment of Principle method is particularly appropriate for borrowing where the financial benefits accrue evenly over the life of the asset acquired. Similarly, the Annuity Method is more appropriate where the financial benefits are skewed towards the later years of the asset's life.

37. The Local Government Sector has recently started to challenge the application of the "prudent amount" definition, seeking an approach that is better designed to local circumstances and which does not necessarily take an asset by asset approach or categorisation of asset approach to the setting aside of sums for the repayment of Debt (i.e. MRP). Rather, that the approach is one that considers all of the Assets of the Council in totality and considers them also in the context of the maturity profile of the Council's debt. Any approach adopted must be agreed in consultation with the Council's external auditors.

38. The Council put the case to its external auditors that the Annuity Method across all of its borrowings was the most appropriate method for the setting aside of its Minimum Revenue Provision. This approach has the following features:

(i) It reduces the annual amount required to be set aside over the medium term commencing with a £2.0m saving in 2016/17 and reducing to zero by 2032/33 and then subsequently increasing by circa £150,000 per annum but at a time where the value of the debt provision to be set aside will have been significantly eroded by inflation

(ii) By making the case for the Annuity Method, which means the Council does not need to set aside sums at the current levels, the Council can make the further case that it has set aside sums in the past, amounting cumulatively to £39.6m that were in excess of what was required. On that basis, the Council would wish to "prudently" release that "overprovision" back to support the Council's overall Medium Term Financial Strategy

39. Discussions with the External Auditor have therefore, in the first instance, focussed on justifying the "Annuity Method" as being a prudent approach for the setting aside of funds for the repayment of debt. Once established and accepted, the further discussion on how the £39.6m "overprovision" is prudently released and available to support the Council's Medium Term Financial Strategy was undertaken.

40. The external auditors have accepted the Council's arguments that the Annuity Method is a prudent approach across all of its debt obligations and that it provides a good overall match between the timing of financial benefits derived by the assets funded by borrowing and when the associated debt provision is made. Furthermore, the external auditors have also accepted that reducing the amount set aside for debt over the next 5 years of between £7m and £8m is prudent in the context of the new Medium Term Financial Strategy proposed. In any event, this is the maximum annual amount that can be released over the coming years. The effect of this is to take a "debt repayment holiday"

41. This approach to the re-profiling of the Council's debt provisions and taking a debt repayment holiday will necessarily leave the ASDA capital receipt intact and therefore support the intent to also maximise the Council's Capital resources. The decision taken by Full Council at its meeting of 20 July 2016 approved both the appointment of a Director of Regeneration and related support staff at a total cost of £2m and delayed changes to the Operating Model by 2 years at a total cost of £6m, in total amounting to £8m and to be funded from the ASDA capital receipt. No change to the decision in itself is proposed, but it is proposed to change the funding source and instead use the MRP overprovision and the associated facility to take a Debt Repayment holiday to fund those decisions. As a consequence, the ASDA capital receipt will be left intact. Capital receipts can only be used to fund capital expenditure or repay debt. Previously, the ASDA receipt was planned to be used to repay debt, therefore releasing a revenue saving to fund the re-instatement of the Operating Model and the new Regeneration team. Since

the proposal is now to take "debt repayment holiday", the receipt can no longer be used to repay debt and create a revenue saving. It is therefore now only available for Capital Investment.

42. As described previously, the use of the Council’s Capital Resources is a vital component of the Council's Medium Term Financial Strategy as a means of making cost savings and improving the Council's funding base. To maximise the capital resources available and to ensure that those capital resources are properly targeted towards the Council's new Medium Term Financial Strategy the following are also proposed:

(i) All contractually uncommitted capital schemes which are relying on non ring-fenced funding are withdrawn from the Capital Programme and the associated funding pooled with all other available capital resources to enable a holistic view of refreshed Capital Investment priorities to be taken, in the context of the new Medium Term Financial Strategy. Given the extremity of the financial challenge facing the Council and the need to maximise the quantum of Capital Resources to be directed towards investments that will support that pursuit, this proposal will provide the opportunity to re-assess previous priorities with current priorities, allowing each to compete with each other for funding, maximise the opportunity to make savings/increase the funding base and ultimately protect public services

(ii) Similarly, that the ASDA capital receipt be pooled with all other available capital resources in order to maximise the capital resources available for the reasons set out above

<u>Revised Financial Forecast 2016/17 to 2020/21</u>

43. As described, a review of opportunities to increase the financial capacity of the Council in the short term in order to "smooth out" the necessary savings requirements and provide time for longer term plans to take effect has been completed. This, alongside a review of all of the cost assumptions contained within that forecast has been undertaken and a new Medium Term Financial Forecast completed. The Medium Term Financial Forecast has also been “rolled on" a further year to now cover the period 2016/17 to 2020/21.

44. The previous Medium Term Forecast estimated that savings of £35m would be required across the 4 year period 2016/17 to 2019/20, with £25.3m of those savings required across this year and next year. The new Medium Term Financial Forecast reduces that forecast to £33m but over a longer 5 year period. On a "like for like" basis, comparing similar time periods to 2019/20, the overall savings requirement has reduced by £6.5m.

45. Importantly, the extent of "front loading" has been significantly reduced such that £16.2m (a reduction of £9.1m) is now required across this year and next year providing essential relief to enable "avoidance to cuts" measures such as regeneration, entrepreneurial activities and longer term cost reduction measures to take effect and be available to contribute towards savings requirements downstream.

46. The Adjusted Budget for 2016/17 and new Medium Term Financial Forecast is summarised below. This includes a proposed adjusted Budget for 2016/17 of £145,115,000 which:

- Assumes that the Council will approve a change to the Council's MRP Policy such that all debt incurred from 2008 Onwards will be provided for using the Annuity Method with an associated saving commencing at £2.0m per annum

- Accordingly, takes advantage of the "Debt Repayment Holiday" amounting to between £7m and £8m per annum associated with switching to the Annuity Method for providing for debt repayment

- Reduces the Savings Requirement for the current year to £8.7m (compared to the currently approved savings requirement of £12.8m)

- Makes permanent the approved decision taken by Council on the 20 July 2016 to appoint of a Director of Regeneration and related support staff (i.e. extending it beyond the current 2 year approval)

- Makes permanent the approved decision taken by Council on the 20 July 2016 to remove the £3m saving to the Council's Operating Model (i.e. extending it beyond the current 2 year approval)

- Makes a series of other Budget Adjustments for non deliverable / speculative savings targets (described later in this section).

- Creates a £1m Transformation Reserve

- Starts to build General Reserves beyond the minimum level from 2019/20 onwards

The Adjusted Budget 2016/17 and new Medium Term Financial forecast is summarised below:

| Adjusted Budget & New Medium Term Forecast to 2020/21 | | | | | |
|---|---|---|---|---|---|
| **Financial Year** | Adjusted Budget 2016/17 £m | Forecast 2017/18 £m | Forecast 2018/19 £m | Forecast 2019/20 £m | Forecast 2020/21 £m |
| **Expenditure (before savings)** | 153.8 | 166.2 | 170.9 | 177.8 | 183.5 |
| **Funding** | 147.4 | 145.9 | 146.9 | 150.3 | 154.3 |
| **In Year (Surplus) / Deficit** | **6.4** | **20.3** | **24.0** | **27.5** | **29.2** |
| **Less: Proposed Savings Requirements** | | | | | |
| **Saving - 2016/17** | (8.7) | (8.7) | (8.7) | (8.7) | (8.7) |
| **Saving - 2017/18** | | (7.5) | (7.5) | (7.5) | (7.5) |
| **Saving - 2018/19** | | | (7.5) | (7.5) | (7.5) |
| **Saving - 2019/20** | | | | (5.0) | (5.0) |
| **Saving - 2020/21** | | | | | (4.0) |
| **Total Savings** | **(8.7)** | **(16.2)** | **(23.7)** | **(28.7)** | **(32.7)** |
| | | | | | |
| **(Surplus) / Deficit After Savings** | **(2.3)** | **4.1** | **0.3** | **(1.2)** | **(3.5)** |

47. Based on the Adjusted Budget 2016/17 and new Medium Term Financial Forecast including the proposed savings requirements for the current year to 2020/21, General Reserves will remain at or around minimum levels over 2017/18 and 2018/19 and start to recover thereafter as set out below.

| General Reserves Forecast - 2016/17 to 2020/21 | | | | | |
|---|---|---|---|---|---|
| **Financial Year** | Current Year £m | Forecast 2017/18 £m | Forecast 2018/19 £m | Forecast 2019/20 £m | Forecast 2020/21 £m |
| **Opening Balance** | 7.3 | 9.6 | 5.5 | 5.2 | 6.4 |
| **In Year Surplus / (Deficit)** - see previous table | 2.3 | (4.1) | (0.3) | (1.2) | 3.5 |
| **Forecast Balance** | **9.6** | **5.5** | **5.2** | **6.4** | **9.9** |

48. Arising from the new Medium Term Financial Forecasts, the new Savings Requirements are set out below and are recommended for approval by the Council. The Savings Requirements themselves are constrained by the level of the Council's General Reserves. General Reserves can be used to contribute towards any deficit between in year expenditure and in year funding but cannot fall below the £5m level. As previously mentioned, with a profile of Savings Requirements as set out below, General Reserves will be at or around the minimum level for 2017/18 and 2018/19 leaving no further scope to reduce the level of required savings.

49. The new Savings proposals are set out below alongside a comparison of the original savings requirements. The Savings Requirements for the current year and 2017/18 are firm proposals for approval whilst those for 2018/19 onwards are forecasts based on the new Medium Term Financial Forecast which will be revised annually:

| New Savings Requirements - 2016/17 to 2020/21 | | | | | | |
|---|---|---|---|---|---|---|
| **Financial Year** | Current Year £m | 2017/18 £m | Forecast 2018/19 £m | Forecast 2019/20 £m | Forecast 2020/21 £m | Total £m |
| **Original Savings Requirement** | 12.8 | 12.5 | 6.1 | 3.8 | ? | 35.2 |
| **New Savings Requirement** | 8.7 | 7.5 | 7.5 | 5.0 | 4.0 | 32.7 |
| **Change** | **(4.1)** | **(5.0)** | **1.4** | **1.2** | **?** | **(2.5)** |
| **Cumulative Change** | **(4.1)** | **(9.1)** | **(7.7)** | **(6.5)** | | |

50. In arriving at the new Medium Term Financial Forecast it has also been necessary to bring stability to both the Budget for 2016/17 and the forecast for the following years to 2020/21. To achieve this, the following adjustments have been made, recognising that these targets are either no longer considered deliverable, are cost pressures outside the Council's control or are not sufficiently certain at this stage to rely upon. It is proposed therefore that these savings should no longer feature within the current budget or future forecast:

| Proposed Budget Adjustment | 2016/17<br>£ | Future Years<br>£ |
|---|---|---|
| Highways PFI Income | 260,000 | 260,000 |
| Concessionary Fares | 80,000 | 80,000 |
| Coroners | 130,000 | 130,000 |
| Income Savings Target | 400,000 | 400,000 |
| Contract Savings Target | 250,000 | 250,000 |
| Property Acquisitions Target | 103,000 | 103,000 |
| ASDA Interest Savings Target | 340,000 | 340,000 |
| Vacancy Management Cross Cutting Savings | | 650,000 |
| **Total** | **1,563,000** | **2,213,000** |

51. In addition, the opportunity to reverse the proposed saving relating to implementing the statutory minimum National Concessionary Travel Scheme amounting to £100,000 is proposed by the Executive and to be replaced with an additional saving of equivalent value relating to a reduction in debt interest costs.

52. The proposals described above will:

i. Reduce the savings requirements previously approved by the Council by £6.5m over the same period but significantly reduce the "front loading" profile to enable more time for the proposals within the new Medium Term Financial Strategy to take effect

ii. Put the existing budget on a robust footing by removing non deliverable savings and recurring cost pressures.

<u>4 Year Local Government Settlement Offer & Efficiency Plan</u>

53. Local authorities have experienced the biggest proportionate reduction in funding of all Government departments since 2010. The scale of reduction, along with a degree of volatility around the phasing and timing of these reductions to different authority types, can make it very difficult for authorities to plan their spending priorities strategically. The need for effective medium term planning has therefore never been greater.

54. The Government's response to these concerns from local authorities and contained within the Local Government Finance Settlement 2016 to 2017 has been to offer a guaranteed minimum grant envelope, paid to councils for a 4 year period from April 2016. This, the Secretary of State said, should increase local authority certainty and confidence and would be a key step towards supporting councils to strengthen financial management and work collaboratively with local partners when considering the way local services are provided in future.

55. Further details became available in a letter from the Secretary of State dated 10th March 2016 clarifying the offer (see Appendix 2). In essence the government has offered a guaranteed budget to every council which desires one and which can demonstrate efficiency savings for 2016/17, and for every year of the current parliament.

56. The multi-year settlement offer relates to Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant allocations along with the top-ups to the Council's Individual Authority Business Rates Baseline for each of the three years to 2019/20 (**note: the final year may be subject to implementation of 100% business rates retention**).

57. Accepting the Government's offer of a multi-year settlement will guarantee the following minimum levels of funding for these lines within the settlement as follows:

| **Multi-Year Settlement** | **2017/18** | **2018/19** | **2019/20** |
|---|---|---|---|
| Revenue Support Grant | 19,170,000 | 12,720,000 | 8,550,000 |
| Transitional Grant | - | - | - |
| Rural Services Delivery Grant | - | - | - |
| Top Up to Individual Authority Business Rates Baseline | 12,550,000 | 12,800,000 | 13,180,000 |
| **Value of Guaranteed Funding** | **31,720,000** | **25,520,000** | **21,730,000** |
| **Guaranteed Funding as Proportion of Total Funding** | **20.1%** | **15.7%** | **12.9%** |

58. Specific statements made by the Secretary of State in relation to the four year settlement include:

> *"Those councils that chose not to accept the offer, or do not qualify, will be subject to the existing yearly process for determining the local government finance settlement.*
>
> *Allocations could be subject to additional reductions dependant on the fiscal climate and the need to make further savings to reduce the deficit.*
>
> *At present we do not expect any further multi-year settlements to be offered over the course of the parliament."*

59. The offer of a four year settlement will help to provide greater certainty and will help the planning framework of the Council. It is however, important to recognise what is not within the scope of the settlement, it does not for example include the following significant funding streams:

- Education Services Grant
- Public Health Grant
- Housing Benefit & Council Tax Administration Grant

- Better Care Fund
- New Homes Bonus
- Business Rates Local Share (retained 50%)

60. The DCLG will only consider expressions of interest in accepting the offer if a link to a published efficiency plan is received by 5pm Friday 14th October 2016. The government has not issued detailed guidance regarding what these plans should include although some outline guidance was included in the letter reproduced at Appendix 2.

61. In considering the multi-year settlement offer, the following key advantages and disadvantages should be borne in mind:

| Advantages | Disadvantages |
|---|---|
| Provides a degree of certainty over funding levels for the next three years | Applies only to limited funding streams within the settlement offer - excludes other significant funding streams |
| Facilitates improved financial planning over the period | Implied acceptance that reduced funding over the period is achievable |
| | Requirement for an efficiency plan suggests a level of government control over the Council's plans to meet the identified funding gap |
| | Funding is not fully guaranteed - Government reserves the right to change the settlement due to unforeseen circumstances |

62. In addition the recent EU referendum result may have far reaching political and economic ramifications which could have a material impact on the public sector finances generally and consequently the settlement for local government.

63. The funding contained within the multi-year settlement offer, whilst significant, represents a small but meaningful proportion of the total funding expected to be available to the Council up to and including 2019/20. It is considered highly unlikely that non-acceptance would lead to additional funding and there remains a real risk of further funding reductions in the medium term should the Council decide not to take up the government's offer. There remains the concern that further funding reductions in the medium term could occur following the EU referendum result and it is therefore recommended that the offer of multi-year settlements from government is accepted.

64. As mentioned, the offer of the 4 Year Settlement is conditional on the Council publishing an Efficiency Plan by 5pm Friday 14th October 2016. The proposed Efficiency Plan is attached at Appendix 3 and is recommended for Approval. Importantly, the proposed Efficiency Plan makes clear that the Plan, 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.

STRATEGIC CONTEXT

65. The proposed Medium Term Financial Strategy is the key policy document that sets the Council's financial parameters for the next 5 years and the Council's financial direction. It is drawn from the Council's Corporate Plan and 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.

66. The Efficiency Plan is largely a summary repetition of the Council's Medium Term Financial Plan and is therefore linked strongly to the Council's Corporate Plan.

CONSULTATION

67. The proposals set out in this Strategy have been prepared in consultation with the Executive and the wider members of the Independent Group.

68. The external auditor has also been consulted and has cited the emergence of this Strategy as the reason for providing the Council with an unqualified Value for Money Conclusion for 2015/16. Should this strategy not be approved, the external auditor is likely to change their opinion of whether the Council can demonstrate the required financial capability and resilience to plan its finances effectively to deliver services. An extract of the external auditor's report to the Audit Committee on 26 September 2016 is referenced below for information

*" The Council's current financial position and future financial outlook remains highly challenging. Our review of the last iteration of its MTFP would lead us to conclude that the Council was not able to plan finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. We therefore would have qualified the value for money conclusion. However, subsequent developments, and particularly the ability to reduce the annual MRP charge and extend and more evenly profile pressures on the revenue budget over the next five years, have given the Council more time to implement changes to address the financial challenge. It is now essential that this is done.*

*This is likely to require further difficult decisions on priorities and levels of service provision to be taken, together with a change in the Council's focus away from solely reducing cost and organisational capacity to thinking differently about how financial change might be achieved through regeneration and revenue growth, and how available capital funding can be used to better support this."*

FINANCIAL / BUDGET IMPLICATIONS

69. All of the financial implications arising from the recommendations are contained within the body of the report.

LEGAL IMPLICATIONS

70. The Council will need to set a lawful and balanced budget and Council Tax level for 2017/18 by the statutory deadline. In developing any proposals the necessary equality impact assessments and consultation processes will need to be followed, and consultation responses will be taken into account before any decisions are taken.

EQUALITY AND DIVERSITY

71. 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). An Equality Impact Assessment was carried out and considered as part of the Budget Strategy in February 2016, in which various savings and service reductions were considered. This Medium Term Strategy does not propose any additional specific service reductions. Any further proposed savings/service reductions will be subject to further Equality impact assessments which will be completed as and when those decisions are considered so that the decision taker can take into account and if necessary mitigate the impacts as part of the decision making process..

PROPERTY IMPLICATIONS

72. There are no specific property implications contained within this report but the ability maximise resources available for Capital Investment is dependent in part on the ability to dispose of surplus assets and generate capital receipts.

73. To maximise the opportunity to Improve the Island Economy and reduce the Council's costs, it will be important to complete a strategic review of assets in order to:

- Provide appropriate sites for regeneration
- Identify underperforming assets to inform the rationalisation of the estate
- Identify opportunities for re-provisioning services into "low value" sites and release higher value sites for regeneration or sale

OPTIONS

74. The new Medium Term Financial Strategy, the reduced Savings Requirements and associated recommendations are presented as a cohesive and interrelated package of measures aimed at providing the maximum opportunity to meet the financial challenge faced by the Council. To ensure that the Council has a cohesive Financial Strategy the options are:

(i) Approve the recommended Medium Term Financial Strategy and associated recommendations

(ii) Reject the Medium Term Financial Strategy and associated recommendations and request Officers to prepare an alternative strategy

(iii) Not accept the 4 Year Settlement to 2019/20 by Central Government announced on 17 December 2015 and the accompanying Efficiency Plan attached at Appendix 3

## RISK MANAGEMENT

75. The financial challenge is the single biggest risk to sustainable public services on the Island. Accordingly the Council needs to resolutely maximise the deployment of the resources that it does have (Revenue, Capital, Property and Staff) towards driving additional income / funding and cost savings to secure Council Services for the future. The approval of a Medium Term Financial Strategy is crucial to providing structure and direction to achieving the financial challenge in a way that is aligned with the Council's corporate objectives and minimises cuts to essential services.

76. The key risk is that the Council does not approve a cohesive Medium Term Financial Strategy and that the process of achieving cost savings / additional income/funding is disorderly with sub optimal decisions taken which lead to greater than necessary cuts to essential services.

77. Should the proposed Medium Term Financial Strategy not be approved, Officers will need to work at pace with the Administration to prepare an alternative Strategy that is acceptable to the Council.

## EVALUATION

78. The new Medium Term Financial Strategy is recommended for the following reasons:

- It is consistent with the Council's Corporate Plan but with a change of emphasis

- It reduces the overall quantum of savings required over the short and medium term providing more time for "alternative to cuts" initiatives to take effect and pending the Government's "Fairer Funding" review in 2019/20

- To "Smooth out" the required savings such that the incidence of "front loading" of the savings is minimised to enable the Council to maximise its operational capacity to implement initiatives at pace aimed at increasing income / funding and reducing costs

- To improve the overall financial resilience of the Council

- To ensure that funding is available to enable, or "pump prime" Spend to Save (Revenue) and Invest to Save (Capital) schemes

- It maximises the Capital Resources available to the Council for regeneration and invest to save purposes

- It targets the other resources and assets of the Council (e.g. Property, Land, IT and Staff) towards regeneration and transformational change to public services

- It embeds a Financial Framework to support the successful delivery of the strategy that:

  - Promotes longer term financial planning

  - Encourages responsible spending

  - Improves financial decision making

  - Better aligns responsibility for the delivery of services with the financial accountability for those services and improves the financial discipline of the Council

RECOMMENDATION

79. It is recommended that the Council approve the following:

(i) The Medium Term Financial Strategy attached at Appendix 1

(ii) The Financial Framework described in paragraph 26 which includes:

- The removal of all revenue and capital ring-fencing (except where required by statute)

- The creation of a Transformation Reserve

(iii) The creation of a £1m Transformation Reserve to be used in accordance with the criteria set out in paragraph 27

(iv) Any Revenue underspendings at year end (after approved carry forwards) are transferred into the Transformation Reserve as a mechanism to replenish the Reserve and ensure that it remains available for future Spend to Save and Invest to Save initiatives

(v) To re-build General Reserves to a reasonable level above the minimum from 2018/19, or earlier if opportunities arise

(vi) The Annuity Method as the methodology for setting aside a "prudent amount" for the provision for debt repayment, known as the Minimum Revenue Provision, from 2016/17 in order to secure savings commencing at £2m per annum and provide the ability to release £39.6m of "overprovision" to support the Councils new Medium Term Financial Strategy

(vii) To take a "Debt Repayment holiday" for the next 5 years in order to draw down on the "overprovision" for funding debt liabilities at sums between £7m to £8m per annum with the consequent effect of leaving intact the ASDA receipt of £17.5m

(viii) All contractually uncommitted capital schemes which are relying on non ring-fenced capital funding (as defined by regulation) are withdrawn from the Capital Programme and the associated funding pooled and considered alongside all other competing priorities for Capital Investment as part of the forthcoming budget process, including the ASDA Capital Receipt

(ix) The Adjusted Budget for 2016/17 and Financial Forecasts for 2017/18 to 2020/21 as set out in paragraph 46 which includes the proposals set out in paragraph 50 to ensure that the Budget for the current year and forecasts for future years are robustly based

(x) The appointment of a Director of Regeneration and related support staff (currently approved for a 2 year period only) is made permanent

(xi) The proposal to remove the £3m saving to the Council's Operating Model (currently approved for a 2 year period only) is made permanent

(xii) The new Savings Requirements as set out below and described in paragraph 48

| New Savings Requirements - 2016/17 to 2020/21 | | | | | | |
|---|---|---|---|---|---|---|
| **Financial Year** | Current Year £m | 2017/18 £m | Forecast 2018/19 £m | Forecast 2019/20 £m | Forecast 2020/21 £m | Total £m |
| **Original Savings Requirement** | 12.8 | 12.5 | 6.1 | 3.8 | ? | 35.2 |
| **New Savings Requirement** | **8.7** | **7.5** | **7.5** | **5.0** | **4.0** | **32.7** |

(xiii) The acceptance of the 4 Year Settlement to 2019/20 by Central Government announced on 17 December 2015

(xiv) The Efficiency Plan attached at Appendix 3

APPENDICES ATTACHED

80. The following appendices are attached:

- Appendix 1 - Medium Term Financial Strategy 2016/17 to 2020/21

- Appendix 2 - Letter from Secretary of State for the Department of Communities & Local Government dated 10 March 2016 regarding 4Year Settlements and Efficiency Plans

- Appendix 3 - Efficiency Plan

BACKGROUND PAPERS

81. The following background papers have been relied upon in preparing this report.

(i) The Council's current Medium Term Budget Strategy can be found at: https://www.iwight.com/Meetings/committees/mod-council/24-2-16/Paper%20B.pdf

(ii) The Decisions of Full Council relating to the Operating Model can be found at: https://www.iwight.com/Meetings/committees/mod-council/20-7-16/agenda.pdf

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