PAPER D

Purpose: For Decision

Committee report

Committee	**FULL COUNCIL**
Date	**WEDNESDAY, 26 FEBRUARY 2020**
Title	**BUDGET AND COUNCIL TAX SETTING 2020/21 AND FUTURE YEARS FORECASTS**
Report of	**THE LEADER OF THE COUNCIL AND THE DEPUTY LEADER AND CABINET MEMBER FOR RESOURCES**

EXECUTIVE SUMMARY

1. The key proposals within this report recommend a Budget for 2020/21 that delivers £4.5m of savings in accordance with the Council resolution of 27 February 2019 and a Council Tax increase of 3.99% (2.0% of which is raised specifically to be passported to Adult Social Care). In addition, the future forecasts Savings Requirements have been revised downwards to £3.5m p.a (from £4.5m p.a previously) for the 3 year period commencing 2021/22 but are predicated on maintaining General Reserves above £10m over that period.

2. The proposals also seek to remedy the financial stress being experienced in both Adults and Children's Social Care, providing a sound financial base as the Council moves into a very uncertain period for Local Government funding from 2021/22 onwards.

3. The uncertainty presented from 2021/22 is due to a comprehensive overhaul of the Local Government funding system known as the "Fair Funding Review", it will determine a new formula methodology which will set each Local Authority's baseline funding level. Alongside this, a new system for retaining future Business Rate growth / loss will be implemented, taking away all existing growth and re-distributing that growth nationally according to relative need (rather than where it was generated). For these reasons, the Council's future forecast deficits could reasonably be expected to vary between +/- £4m.

4. During this unprecedented level of uncertainty, it is imperative that the Council continues to plan for savings of £3.5m per year, retaining reserves at the levels proposed in this report so as to retain the necessary financial resilience to be able to respond in all circumstances.

5. Following the £35m investment into the Regeneration of the Island approved by the Council over the past 2 years, the new Capital Investment plans put forward by the Administration amounting to £6.6m are focussed on safeguarding the delivery of Council Services over the next 2-3 years, investing in the safety of the road network and continuing the Council's digital transformation.

6. An Executive Summary of these key points and others is set out below:

EXECUTIVE SUMMARY

Context

- Since 2011/12 savings of £82m will have already been made (over 40% of controllable spend)
- Government funding reductions have been the driving force behind the existing forecast to make £13.5m in savings over the period 2020/21 to 2022/23
- Adults and Children's Services represent 56% of controllable spend, provide services to the most vulnerable, experience the greatest cost pressures, are the hardest in which to manage demand and have historically received significant protection from savings - resulting in proportionally higher savings across other Council Services
- The Local Government Finance Settlement has provided substantial relief for the cost pressures in Adults and Children's Social Care in 2020/21 of £4.3m, and although this new money is expected to be for the lifetime of this parliament it is not clear if this is new money to the Local Government system in the longer term and therefore remains a risk going forward.
- The Council's Medium Term Financial Strategy continues to deliver necessary savings through income generation, economic regeneration and efficiency measures before considering service reductions as a last resort

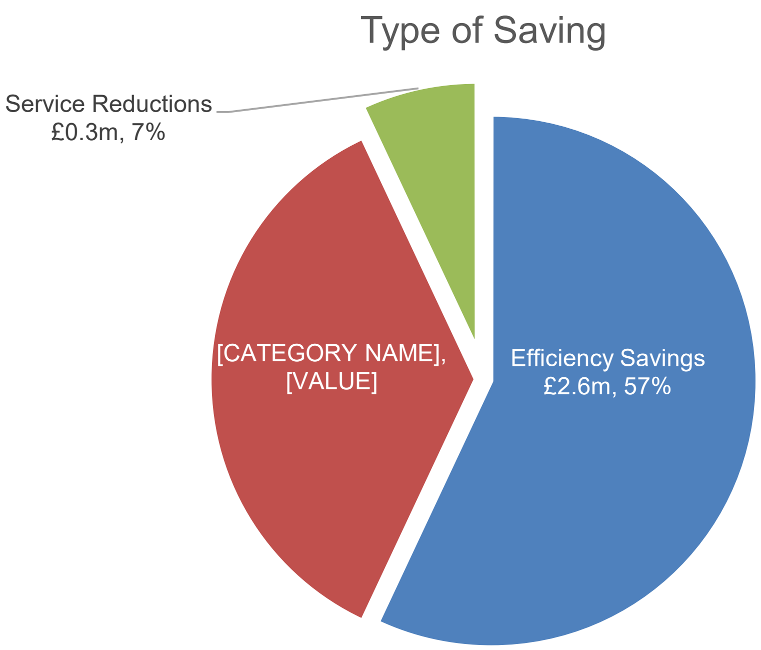
Revised Budget 2019/20

- A Balanced Budget for 2019/20 accommodating all forecast overspendings including Adult Social Care and Children's Social Care has been achieved within this proposal.

EXECUTIVE SUMMARY (Cont'd)

Budget 2020/21

- Planned in accordance with Medium Term Financial Strategy, containing an interdependent package of measures to achieve financial balance and sustainability over the medium term (see below)
- Council continues to benefit from the annual £7m reduction in debt repayment costs which ceases in 2022/23 by which time, if the planned savings are achieved, the Council will no longer need to rely on that source of funding to balance its budget
- Incorporates £4.5m of Savings in accordance with the Council resolution of 27 February 2019
- Additional new funding for Adult Social Care of £4.5m to accommodate their demographic cost pressures and contribute towards the additional costs to care providers associated with the National Living Wage (**increase of 6.2%**)
- Continuation of £1.9m funding for Adult Social Care - "Winter Pressures", Living Well Service and Re-ablement etc. which had previously been announced for 1 year only
- Provides further additional funding for Children's Services of £1.7m (**in addition to the £0.7m additional funding provided in the current financial year**) to accommodate the rise in Looked After Children to current levels and the increasing numbers of SEN Home to School Transport
- Delivers a Council Tax increase of 3.99%, of which:
    - 1.99% is for general council services (at an inflation based level)
    - 2.0% (amounting to £1.7m) is to be passported directly to Adult Social Care
- Financial provision for the expected Council contribution towards the Tour of Britain race
- 93% of the £4.5m savings are delivered through Efficiencies and Income Generation and only 7% achieved through service reductions. This analysis is presented as follows:



- The ceasing of the 75% Business Rate Retention pilot (**which had previously provided total funding of £3.0m to be used to support essential Capital Investment**)
- A balanced budget with "In Year" Spending matching "In Year" Income, retaining General Reserves at budgeted levels of £12.2m.

EXECUTIVE SUMMARY (Cont'd)

Future Forecast - 2021/22 to 2023/24

- The new forecast for the new 3 Year Period (now extended to 2023/24) is a £10.5m deficit
- The new forecast is subject to unprecedented uncertainty due to the forthcoming Multi Year Spending Review, Fair Funding Review and the 75% Business Rate Retention Scheme and could vary by +/- £4m
- Future forecasts seek to make adequate provision for both the replenishment of the Transformation Reserve as well as contributions towards necessary Capital Investment requirements to meet the "Capital Gap" (Shortfall between Aspirations / Obligations and Funding)
- Proposed Savings are further "smoothed out" and phased evenly at £3.5m p.a over the next 3 years (i.e. commencing 2021/22)
- General Reserves are maintained over the period at not lower than £10m (**assuming the £3.5m p.a. savings are achieved**) in order to provide a responsible level of headroom to be able to respond to the risks associated with the future funding uncertainty
- Balanced approach to savings if the forecast proves to be too pessimistic or too optimistic. With General Reserves at proposed levels, savings of £3.5m p.a. ensure that for any improvement in the forecast, the Council has not prematurely made a level of savings that could have been avoided and for any deterioration, good progress towards the necessary savings will have been made

Reserves

- The minimum level of Reserves required by the Council based on its risk profile, and crucially the savings proposed within this report, is £7m which it cannot fall below
- No contribution to Reserves in 2020/21 with Reserves being maintained at the budgeted levels of £12.2m but falling in 2021/22 to provide for the transfer of £0.5m to the new Combined Fire Authority and falling again in 2022/23 to £10.1m before stabilising at that level
- Planned Reserves at £12.2m for 2020/21 represent just 3.3% of total gross expenditure
- Reserves fall back to lower levels of £10.1m by 2023/24, providing a buffer of £3.1m over the current minimum required level but at a time when the risks of the Fair Funding Review and Business Rate "reset" will have passed

Capital Programme

- Total proposed new Capital Investment of £6.6m comprising:
  - £1.7m for Disabled Facilities Grants, helping people to remain in their homes
  - £1.7m for core IT infrastructure and digital transformation across Council Services
  - £1.5m Traffic Safety measures
  - £0.9m for critical repairs/ replacement to the Council's operational buildings and vehicles
  - £0.8m Sandown Civic Centre, enabling the release of leased buildings
- Looking forward, there remains a substantial "Capital Gap" between funding and need

Conclusion

- Balanced Budgets for both 2019/20 and 2020/21
- Council's financial health is currently stable and responsibly managed
- Future uncertainty for Local Government funding remains a substantial risk

BACKGROUND

7. The primary purpose of this report is to set the Council's overall Budget for the forthcoming year 2020/21 and the associated level of Council Tax necessary to fund that Budget.

8. The report makes recommendations on the level of Council spending for 2020/21 and the level of Council Tax in the context of the Council's Medium Term Financial Strategy with its stated aim as follows:

> *"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. The recommended Budget for 2020/21 has been prepared on the basis of the following:

   - The Council resolution of 27 February 2019 that set an overall savings requirement of £4.5m

   - An increase in the level of Council Tax for 2020/21 for general purposes of 1.99%

   - The flexibility to increase the level of Council Tax for an "Adult Social Care Precept", within the limits set by Central Government at 2.0%, and the direct passporting of that additional funding to Adult Social Care to provide for otherwise unfunded cost pressures.

10. This report also provides a comprehensive revision of the Council's rolling 3 year future financial forecast for the new period 2021/22 to 2023/24 (i.e. compared to the previous forecast covering 2020/21 to 2022/23, this forecast now replaces the forecast for the previous 3 year period).

11. The new forecast considers the future outlook for both spending and funding, and in that context, wider recommendations are made regarding the levels of reserves to be maintained and additional contributions to the Capital Programme in order to meet the Council's aspirations for the Island as well as maintaining the Council's overall financial resilience.

12. In particular, this report sets out the following:

    (a) The challenging and uncertain financial climate facing the Council in 2020/21 and beyond and the consequential budget deficits that result

    (b) A brief summary of the Medium Term Financial Strategy for achieving the necessary savings as approved in the report to Council in October 2016

(c) The Revised Revenue Budget for the current year 2019/20

(d) The Provisional Local Government Finance Settlement for 2020/21

(e) The Business Rate income for 2020/21 and future years and the ceasing of the Solent 75% Business Rate Retention Pilot (in a pooled arrangement with Portsmouth City Council and Southampton City Council)

(f) The Council Tax Base and recommended Council Tax for 2020/21

(g) The proposed Revenue Budget for 2020/21

(h) The financial forecast for the new 3 year period and consequent Savings Requirements for 2021/22, 2022/23 and 2023/24

(i) Estimated General Reserves over the period 2019/20 to 2023/24

(j) The forecast Collection Fund balance as at 31 March 2020 for both Council Tax and Business Rates

(k) The detailed indicative savings (Appendix C) that could be made by each Portfolio in meeting its overall savings amount in order to provide the Council with the assurance necessary to approve the recommended savings amount for each Portfolio

(l) The statement of the Section 151 Officer on the robustness of the budget in compliance with the requirements of the Local Government Act 2003.

(m) The Capital Programme for 2019/20 to 2024/25

ECONOMIC & FINANCIAL CONTEXT

13. Whilst economic growth continues in the UK economy, the rate is starting to slow with growth at its lowest levels since the spring of 2012. The picture for the national public finances continues to improve slowly with total debt as a proportion of Gross Domestic Product falling by 0.2 percentage points over the year to 72.5% currently.

14. As far as next financial year is concerned (2020/21), there was positive news for essential Local Government Services including Social Care and Housing within the Spending Review 2019 and also within the Conservative manifesto. It remains to be seen whether this will filter through into additional funding for local Councils beyond next financial year and this remains a critical uncertainty for 2021/22 onwards.

15. Details of how the Spending Review 2019 has filtered down into the Provisional Local Government Finance Settlement for the Council are set out later in this report.

16. For the following year 2021/22 there will be a comprehensive overhaul of the Local Government funding system known as the "Fair Funding Review". It will determine a new formula methodology which will set each Local Authority's baseline funding level. Alongside this, a new system for retaining future Business Rate growth / loss will be implemented, taking away all existing growth (amounting to £5.1m) and re-distributing that growth nationally according to relative need (rather than where it was generated).

17. Finally, the Chancellor has announced that there will be a National Budget on 11 March 2020 which is expected to set the parameters for a multi-year Spending Review later in 2020. Whilst this will provide greater clarity for the Local Government sector as a whole, the impact on the Council will be heavily influenced by the outcomes of the Fair Funding Review and Business Rate Retention Scheme Review to be implemented in 2021/22.

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

18. The Council approved an MTFS in October 2016 to guide the Council towards financial sustainability.

19. The Council has been required to make £82m in savings and efficiencies (representing over 40% of controllable spending) over the past 9 years in order to balance the Budget, ensuring that spending remains in line with income and funding levels.

20. This continuing financial challenge is seen as the single biggest risk to sustainable public services on the Island. Accordingly, the Council's MTFS is designed 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.

21. The overall aim of the MTFS is illustrated below:

"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

22. The 6 Themes of the Medium Term Financial Strategy are described below.

23. The themes within the MTFS have been designed as a comprehensive and complimentary package of measures to support the Council to navigate through the financial challenge that it faces. Theme 1, "Create Financial and Operating Capacity to Transform" remains the critical building block to enable all other activities to take place. Without financial resilience and sufficient general reserves, the Council will not be able to:

    i) Take a proportionate and managed approach to the implementation of the Council's Savings Requirements and the "smoothing out" of savings over longer time periods will not be an available option resulting in larger and deeper service reductions

ii) Cushion the impact on services from any "financial shocks"

iii) Take advantage of opportunities that may arise (e.g. additional external funding) which requires a Council contribution and would contribute to the future financial sustainability of the Council

24. Without financial resilience, the remainder of the Council's MTFS is compromised and the ability of the Council to provide sustainable public services in the future is placed at risk.

25. The 6 Themes of the MTFS are:

SHORT TERM

Theme 1 Create Financial and Operating Capacity to Transform
Theme 2 Increasing Efficiency & Effectiveness

SHORT TO 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 TO LONGER TERM

Theme 6 Public Service Transformation

REVISED BUDGET 2019/20

26. The original Revenue Budget approved by the Council in February 2019 was £150,332,200.

27. The Cabinet has received regular quarterly Budget Monitoring reports on the 2019/20 Budget throughout the year which have consistently reported a forecast overspend for the year. This has been largely driven by the forecast cost pressures facing both Adult Social Care (currently forecast to be £0.8m overspent) and Children's Social Care (currently forecast to be £1.4m overspent) but offset by contingency provision specifically set aside for these potential pressures and also from improved returns from the Council's Treasury Management activities plus income from Housing Benefit overpayment recovery.

28. In overall terms, for the whole Council, the forecast overspend over the year has varied between £1.0m to £1.2m.

29. Of critical importance is the extent to which the overspending positions in both Adults and Children's Social Care are expected to continue into future years.

This is described as the underlying deficit (or "structural deficit"). These deficits represent the level of savings that will either need to be met from the Services themselves through their own strategies and action plans or which, if proved to be unachievable to remedy, require a corporate response through an increase in the Portfolio Budget. This, in turn, would normally add to the overall Budget deficit of the Council and increase Savings Requirements to be made across Council services in future years. The proposed remedy for these underlying deficits in 2020/21 is set out later in this report.

30. The Original Budget has now been comprehensively revised and remains in balance. It is proposed to increase the Budget to £152,345,900, an increase of £2,013,700 which has been compensated for by an almost equivalent amount of funding, meaning that the budgeted contribution to Reserves remains intact. The increase in funding arises as a consequence of the winding up of the Solent Business Rate Retention Pilot scheme and the distribution of the residual amounts of undistributed funding. Whilst it is estimated that the distribution will amount to circa £2m, the actual sum will not be known until the accounts for the pool have been closed for 2019/20. In accordance with the resolutions of Council in February 2019, this sum will be transferred to Capital to support future Capital Investment and therefore is the reason for the increase in spending between the Original and Revised Budgets.

31. In summary, the Revised Budget remains in balance with the Council's overall forecast overspend across services being offset to a large extent by corresponding underspends with any residual cost pressures (e.g. Adult Social Care and Children's Social Care) expected to be accommodated by the Council's Corporate Contingency.

32. The proposed Revised Revenue Budget of £152,345,900 is set out in the General Fund Summary (Appendix A).

REVENUE BUDGET 2020/21

<u>Overall Strategy</u>

33. The overall aim of the Council's Medium Term Financial Strategy is to match "In Year" spending with "In Year" income and funding over the medium term with the use of General Reserves used to "smooth out" any necessary fluctuations between years. This is consistent with being a financially sustainable Council providing quality public services.

34. The Council's Medium Term Financial Strategy, contains an interdependent package of measures to achieve financial balance and sustainability over the medium term which includes:

    - Targeted draw down of the £40m "over provision" for debt repayments over a 5 year period (see paragraphs below)
    - Gradual repair of the Council's General Reserves to levels that can continue to be used to "smooth out" necessary savings over time as well as providing financial resilience for uncertainty and potential "financial shocks"

- A financial framework that supports responsible spending and removes financial obstacles to the delivery of strong Spend to Save schemes

35. At present the Council is still benefiting from the £7m per year draw down from amounts deemed to be set aside in advance for the repayment of debt (i.e. the overprovision in total amounting to £40m), which is commonly referred to as the "debt repayment holiday". This annual benefit will end in 2022/23 by which time, if the planned savings are achieved, the Council will not need to rely on that source of funding to balance its budget.

36. The Council's approved MTFS and Savings Requirements also accommodates the repair of its General Reserves over time. This is vital if the Council is to stabilise its financial position, have the ability to respond to any potential "financial shocks" without resorting to quick and severe service reductions but also have the financial capacity to be able to fund opportunities as they arise.

37. At last year's Annual Budget Meeting in February 2019, forecasts for this coming financial year 2020/21 and the subsequent two financial years estimated that an overall 3 year savings requirement of £13.5m would be necessary to meet the budget deficits over that period.

38. Since those forecasts were prepared in February 2019, the Council has now undertaken a Budget Consultation with residents and also received the Provisional Local Government Finance Settlement for 2020/21. The Local Government Finance Settlement is the term used to describe the main non-ring-fenced Revenue and Capital grant funding allocations from Government.

Budget Consultation

39. The Council published its budget consultation survey on 5 November 2019 and closed on 6 December 2019 with 347 responses. A summary of the results is set out below and has been considered by the Administration in setting out their Revenue Budget, Council Tax and Capital Investment proposals:

- Fees & Charges:
  - 75% either agree or strongly agree that fees and charges should be made for services that users have a choice of whether to use or not. Leisure and parking services were the most frequently made suggestions for charging.
- Council Tax Increase for General Purposes:
  - 70% of respondents opted for an increase of 1%, 2% or more than 2%. 30% of respondents would like to see no increase in Council Tax and instead opting for further Council cuts.
- Adult Social Care Precept:
  - 41% of respondents said that they would be prepared to pay an extra 2% in Council Tax for Adult Social Care with 59% saying they would not

- ❖ Spending priorities generally:
  - o Schools, education and skills was the highest priority for spending with Adult Social Care coming a close second. Children’s Social Care was also identified as a priority as well as Public Health, Community Safety and Public Protection.
- ❖ Services provided by town and parish council, local community groups and the voluntary sector:
  - o 51% of respondents agreed or strongly agreed that some services should be provided locally and the most popular suggestions were around public realm including parks and gardens, roads, drains, street and beach cleaning, rights of way and countryside management.
- ❖ Council owned profit making trading companies:
  - o 42% of respondents disagreed or strongly disagreed with councils setting up trading companies whilst 39% agreed or strongly agreed. Those that agreed suggested services such as transport including ferries, buses, roads and bridges, leisure services (such as leisure centres, harbours, libraries and museums) and social care homes could be provided in this way.
- ❖ Providing services in partnership:
  - o 57% of respondents agreed or strongly agreed with services being provided in partnership with other local authorities highlighting the "back office" in particular as a suitable shared function.
- ❖ Capital investment:
  - o When asked to identify 3 areas where the council should invest, regeneration, transport and supporting people to stay in their own homes were the most popular options. Specific schemes identified by respondents included a fixed link to the mainland and an alternative connection to East Cowes.

<u>Council's Original Financial Forecast</u>

40. The Council's forecast was in line with the settlement, with two main exceptions:

    i) Additional Funding announced for Social Care (see below)

    ii) The delay to the Fair Funding Review upon which the Council's forecasts had anticipated an increase in funding of £1.5m

Social Care:

41. The additional funding available for Social Care is:

- An increase in the Social Care Grant (for both Adult Social Care and Children's Social Care) of £3m *but announced for 2020/21 only* and taking the total grant now to £4.3m

- The flexibility to increase the Adult Social Care Precept by a further 2% (amounting to £1.7m and passporting it direct to Adult Social Care)

42. This additional funding is expected to bring financial stability to the budgets for both Adults and Children's Social Care, at least for 2020/21. It will help to remove the underlying budget deficits in Children's Social Care whilst also contributing to the financial challenges in Adult Social Care arising from demographic pressures generally, as well as the 6.2% uplift in National Living Wage which affects the care sector in particular.

43. Whilst the Conservative manifesto has confirmed that the Social Care Grant funding will continue through the life of the parliament, it is not clear whether this is new funding to the Local Government System as a whole or whether it is to be funded from within the system via a re-direction from the Business Rate Growth that is currently being enjoyed by Local Authorities.

44. Should the Social Care funding be funded from by a re-direction of Business Rate Growth, it will not take effect until the financial year 2021/22. So whilst next financial year is protected, the increased grant funding allocated to Social Care will continue but will be offset by reducing general funding which is used to fund other Council Services. At a sum of £4.3m, this remains a critical uncertainty for the Council's future forecast savings requirements.

Fair Funding Review:

45. Government had originally announced that the Fair Funding review would be implemented for the financial year 2020/21 and Government consultations have indicated that it would take account of the unique cost pressures associated with providing Council Services on the Island. This is expected to be recognised through a "remoteness" factor which will be applied to the formulae for the majority of key services provided. On that basis, the Council's forecasts had included an increase in Government funding of £1.5m. Whilst this is less than the additional costs estimated by the research undertaken by Portsmouth University of £6.4m, a balanced estimate of £1.5m was assumed on the basis that any increase will be phased in over time (under "damping arrangements") and that there are very large number of other factors being considered under the Fair Funding review that could impact positively or negatively on the overall funding allocation to the Council.

46. The implementation of the Fair Funding Review has now been delayed to 2021/22 and whilst it is still anticipated that there will be a favourable outcome for the Council, it has caused a shortfall of £1.5m for the coming financial year. This shortfall has been addressed within the proposals for the Budget 2020/21; some through "one off" factors such as a surplus on the Collection Fund of £0.6m and other continuing improvements such as a £0.3m increase in the Council Tax Base (i.e. number of properties subject to Council Tax) plus other smaller variations.

Funding & Spending 2020/21

47. Other changes to both funding and spending, including significant inflationary pressures are expected in the forthcoming year and have been factored into the proposed Budget for 2020/21. All elements of funding and spending have now been comprehensively reviewed, which include the following:

Funding

- Central Government Funding (Provisional Local Government Finance Settlement)
- Business Rate Income
- Council Tax Income

Expenditure / Income

- Budget Pressures and Inflationary Costs
- Savings proposals at £4.5m
- Other unavoidable cost pressures (including "new burdens" passed down from Central Government)
- Debt Financing costs and interest rates
- Contingencies

48. Based on the Provisional Local Government Finance Settlement and a comprehensive review of all other estimates of funding, income and expenditure for 2020/21 and the following 3 years, the approved savings requirement for 2020/21 of £4.5m remains prudent but only on the basis of the Council Tax proposals set out within this report. Given what is known, or reasonably expected, regarding future funding and given future uncertainties, a savings requirement of less than £4.5m for 2020/21 would not be prudent.

49. Details of the Provisional Local Government Finance Settlement plus all other funding, income and expenditure changes proposed within the Budget for 2020/21 are described in the following paragraphs.

Funding

Provisional Local Government Finance Settlement - Summary

- ***One-year settlement that covers only 2020-21 –*** The 2020/21 announcement is the first and only year of the Spending Round 2019, with future years' announcements dependent on a number of factors, including: Spending Review 2020, the outcome of the Fair Funding Review, the Business Rates Retention (BRR) Reset, the move to 75% BRR and any reform of the New Homes Bonus scheme.

- ***Council Tax –*** The Council Tax referendum limit will be 2%, including Fire Authorities. For local authorities with social care responsibilities a further 2% social care precept is allowed. The provisional settlement confirmed districts will be allowed to apply the higher of the referendum limit or £5

The maximum increase in Council Tax for Police and Crime Commissioners has now been announced at £10 for a Band D property.

- ***Business Rates Retention –*** The three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff / Top Up amounts) have all increased by 1.63%, in line with the September 2019 CPI inflation figure.

- ***Revenue Support Grant –*** RSG (for those authorities that still receive RSG in 2019/20), has increased in line with the Business Rates Retention system (+1.63%).

- ***New Homes Bonus –*** No change to the funding system. Legacy payments (i.e. payments for a further 4 years) due from previous years (2017/18 to 2019/20) will come to an end in 2023/24. Allocations for 2020/21 will be paid in accordance with the current system which includes a deadweight of 0.4% (threshold to be achieved before any allocation for the current year is paid) but will not attract any legacy payments going forward.

  The ministerial statement announced a Spring 2020 consultation on the future of the scheme, stating that:

  "It is not clear that the New Homes Bonus in its current form is focused on incentivising homes where they are needed most" and the consultation will *"include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need, and which is aligned with other measures around planning performance"*

- ***Top Up/Tariff Adjustments (Negative RSG) –*** As in previous years, the Government has decided to eliminate the negative RSG amounts.

- ***Social Care Funding –*** As originally announced at Spending Round 2019 and in the technical consultation. The provisional settlement confirms the previously proposed national amounts and allocation methodologies.

  Improved Better Care Fund - In 2019/20 £1,837m was allocated nationally through the Improved Better Care Fund. This amount remains the same for 2020/21.

  Winter Pressures - For 2020/21, the winter pressures funding has been incorporated into the Improved Better Care Fund (BCF) and must therefore form part of local authorities' contribution to the BCF

  Social Care Support Grant - In 2019/20, £410m of additional (non-ringfenced) funding was allocated for use for Adult and Children's Social Services. This was allocated using the existing Adult Social Care Relative Needs Formula and will also be used to distribute this Social Care Support Grant funding. For 2020/21, as announced in Spending Round 2019, an additional £1bn of funding was added to this grant. This additional £1bn has been confirmed within the Conservative Party manifesto to continue for each year of the parliament.

- ❖ ***Rural Services Delivery Grant –*** The 2020/21 allocation of £81m and methodology for distribution remain unchanged from 2019/20.

- ❖ ***Business Rates Pilots –*** No new business rates pilots were announced for 2020/21, with all areas (aside) from the original 2017/18 (i.e. not including the Solent Authorities) pilot areas reverting back to the 50% scheme. The 2017/18 pilot areas are to remain at 100%, or 37% for the Greater London Authority.

- ❖ ***Dedicated Schools Grant –*** In September 2019, the Secretary of State for Education announced that Dedicated Schools Grant (DSG) funding for 2020/21 would rise by £2.6bn, plus £1.5bn to fund additional pension costs for teachers. Each local authority will receive a minimum of a 1.84% per pupil funding increase. The allocations also meet the Conservative Manifesto commitment to provide at least £5,000 for every secondary school pupil, and £3,750 per primary pupil.

- ❖ ***Independent Living Fund –*** ILF Recipient Grant will continue to be paid to local authorities in 2020/21 and there will be no changes to the amount.

- ❖ ***Levy / Safety Account –*** The levy account at the end of 2018/19 is expected to have a surplus of approximately £58m. However, there is no mention of this being allocated within the provisional settlement papers

- ❖ ***Local Government Funding Reforms –*** There were no additional papers published or mentioned relating to the local government funding reforms that are planned for introduction from April 2021 (i.e. Fair Funding, 75% Business Rates Retention, the full reset of the business rates baselines or the potential Alternative Business Rates Retention System).

- ❖ ***Final Settlement –*** The provisional figures are expected to be confirmed in late January 2020 (within the final settlement announcement)

50. One of the key announcements for the Council was the revocation of the Solent Business Rate Retention Pilot, the pooled arrangement between Portsmouth City Council, Southampton City Council and the Isle of Wight Council which enabled those Councils to retain 100% and 75% of all Business Rate growth in 2018/19 and 2019/20, respectively. It is estimated that the value to the three Solent Authorities of that scheme in terms of additional business rates retained will total £21.4m and to date it has benefited the Council's Capital Programme by £3m. The Council had not relied on this additional funding continuing into future years and therefore it has not affected the Council's existing financial forecast. Nevertheless, it has removed a potential funding source for the Council's Capital Investment needs and aspirations.

51. The final grant settlement should be available by late January / early February, it is not expected to vary significantly from the provisional settlement and it is recommended that any variation should be accommodated by a transfer to or from General Reserves.

52. As previously described, future funding from Government from 2021/22 onwards is heavily dependent on the outcome of the Fair Funding Review. Whilst there are a large number of very significant variables that could affect

the outcome of this review, the Council's central assumption has been revised upwards from a gain of £1.5m to a gain of £2.5m for the Council which is now factored into the new 3 year Forecast and is based on new national modelling work that has been undertaken providing greater confidence of a favourable outcome.

53. Whilst the Local Government Finance Settlement is a significant factor in determining the Council's overall financial position and therefore any necessary savings, other significant factors that will affect the Council's future Savings Requirements include Business Rates income, Council Tax income, inflation, interest rates and any new unfunded burdens passed down from Government. These are described in the paragraphs that follow.

Retained Business Rates - 2020/21 & Future Forecasts

54. The Retained Business Rates system is complex and subject to a significant degree of inherent risk. The current national system is characterised by a complex formula which includes the following:

   i) Retention of 50% of all business rates received and which is affected by the value of successful appeals, the number of mandatory reliefs (e.g. charitable relief) and the overall collection rate (i.e. how much is uncollectable and written off)
   ii) Increased by a fixed amount "top up" which increases annually by the rate of inflation
   iii) Compensation through S.31 Grants for national government initiatives which have the effect of reducing Business Rates to the Local Authority such as business rate capping for small businesses
   iv) A "safety net" set at 7.5% below a pre-determined baseline[1] below which retained Business Rates will not fall (set at £30.3m for 2020/21)

55. In 2017/18 the National Non Domestic Rate system was subject to a re-valuation. This revised both the rateable values and the multiplier. The entire re-valuation is financially neutral at a national level with the increase in rateable values overall offset by a reduction in the multiplier.

56. The Retained Business Rates system for Local Authorities is likewise intended to be financially neutral. Inevitably, this however will not be the case and there will be "winners" and "losers" across the country. The key risk is the extent to which successful appeals are greater or less than the assumed allowance for appeals contained within the new multiplier set by Government.

57. As mentioned, the Solent Authorities 75% Business Rate Pilot (BRR Pilot) has now come to an end and the Council, like almost all other Local Authorities, have reverted back to the national 50% Business Rate Retention Scheme. The BRR Pilot was only guaranteed for 1 year, although the Solent Authorities were successful in their application for a second year also and enjoyed the financial benefits for two financial years which is expected to have provided an overall

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[1] Known as the Baseline Funding Level, set in 2013/14 and increased by inflation each year

financial benefit of £21.4m across the three Councils and amounting to £5.0m for this Council.

58. In total, for 2020/21, Retained Business Rates are estimated at £38.2m[2] (now reflecting the retention of 50% Business Rates) and which includes a surplus relating to previous years of £0.4m arising from lower than anticipated losses due to appeals. Future estimated Business Rates have been assumed to increase by the rate of inflation only (as estimated by the Office for Budget Responsibility).

59. The estimation of Business Rate receipts is extremely complex, with the potential to be volatile and with many of the factors outside this Council's control. In particular, the Valuation Office Agency will both determine whether a rating appeal is successful and the level of reduction granted with the Council having no right of challenge. To help mitigate against this risk, the Council maintains a modest reserve to provide the Council with a degree of funding stability in the event of fluctuations within and between years.

60. Despite the complications and risks associated with appeals, there remains the financial incentive within the system for many Local Authorities (including the Isle of Wight Council[3]) to generate economic growth and job creation. Irrespective of the financial incentive, the Council's Medium Term Financial Strategy is aimed at improving the Island Economy to generate growth and productivity (which improves the Council's Business Rate Base) as well as reducing the demand for Council Services generally.

61. From 2021/22, there will be a new national Business Rate Retention Scheme. Government have consulted on the new scheme on the basis that 75% of Business Rates will be retained by Local Authorities compared with the current 50% national scheme. This will not, in the first instance, provide any additional funding for Local Authorities as it will be introduced in a fiscally neutral way with Local Authorities losing equivalent amounts of grant funding. However, it will mean that Local Authorities are able to retain 75% of all growth achieved versus the current 50%. The introduction of the new scheme will be accompanied by a "Reset" which will remove all current business rate growth currently being enjoyed by authorities and which for the Council amounts to £5.1m[4].

62. The Business Rate growth enjoyed by all councils will be removed from councils, aggregated and then re-distributed based on "Need" through the Fair Funding review. If the Council's "Relative Needs" have increased by more than the average of all other Councils then the Council will be a "winner " in terms of the re-distribution and vice versa.

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[2] Includes Retained Business Rates of £19.5m, "Top Up" of £13.1m, S.31 Grants of £5.2m and a Collection Fund surplus of £0.4m

[3] Applies to Local Authorities that, in general, remain above the safety net threshold over time
4 Based on 2020/21 Estimates in a 50% Business Rate Retention Scheme

Council Tax - 2020/21 & Future Forecasts

Council Tax Amount 2020/21

63. Council Tax currently represents almost 56% of the Council's total revenue funding and as Government funding has reduced, this has become an increasingly more important and dependent funding source for the Council.

64. Council Tax for the average Council Tax payer on the Isle of Wight (Band C) currently amounts to £1,600.56 (excluding parish precepts), of which £1421.48 (88.8%) is the Isle of Wight Council element. Not all residents are subject to the full amount of Council Tax with many benefitting from exemptions and discounts (such as the single person discount) and a significant number of residents receiving Local Council Tax Support bringing the level of Council Tax payable to an assessed affordable level. After discounts, exemptions and Local Council Tax support is taken into account, circa 50% of all properties are subject to the full level of Council Tax.

65. The Provisional Local Government Finance Settlement for 2020/21 confirmed a Council Tax increase limit for general purposes (i.e. referendum threshold) of 2%, being broadly in line with inflation. Any increase beyond the 2% threshold can only be implemented following a "Yes" vote in a local referendum.

66. The actual level of inflation for the Council in 2020/21, taking into account price rises that the Council is exposed to, significantly exceeds the level of increase allowed in the Council Tax. The Council's estimated inflation is exposed to the 6.2% uplift in the National Living Wage (affecting the care sector in particular) and a 2.4% increase in contracts linked to the Retail Price Index.

67. The additional flexibility to apply a Council Tax increase for the Adult Social Care Precept has been provided in recognition of the extreme cost pressures facing Adult Social Care. For this Council, that includes but is not limited to, the increasing numbers of clients that can no longer afford to fund their own care and which subsequently falls on the Council to fund, the increase in the National Living Wage (which has increased by 6.2% and affects the Council's contracts with Care Providers for Adults) as well as the general demographic pressures of an aging and "living longer" population.

68. Given the extraordinary upward inflationary pressures on the Council more generally (and including the 6.2% increase in the National Living Wage on Care Services), the cost pressures in Adult Social Care and having due regard to the results of the Budget Consultation, it is proposed that:

    i) The Council Tax for General Purposes be increased by 1.99% for 2020/21, representing 54p per week for a Band C tax payer and yielding £1.7m

    ii) Adult Social Care precept be increased by 2.0% for 2020/21, representing 55p per week for a Band C tax payer and yielding £1.7m to be passported direct to Adult Social Care.

69. Setting an Adult Social Care precept at a lower sum will inevitably result in additional service reductions to Adult Social Care services in 2020/21, this

decision therefore will be critical for Adult Social Care services and the wider health system on the Island.

70. The Council could elect not to increase the level of Council tax by 3.99% but if it chose to do so would need to identify additional savings over and above the £4.5m savings approved by the Council in February 2019. For every 1% reduction in Council Tax, additional savings of £861,000 will be required.

71. The Council's future forecasts for the period 2021/22 to 2023/24 have been estimated on the following basis:

i) General Purposes - 1.99% rise each year

ii) Adult Social Care Precept - No further increases

Council Tax Base 2020/21

72. The Council Tax Base (i.e. the number of Band D equivalent properties paying the full Council Tax) has been determined as **53,842.7** for 2020/21.

Collection Fund Balance (Council Tax Element) 2019/20

73. The Collection Fund is the account into which are paid amounts collected in respect of Council Tax and out of which are paid the Council Tax precepts to:

- Isle of Wight Council (89.3% share including Town and Parish Councils)
- Hampshire Police & Crime Commissioner (10.7% share)

In the event that actual Council Tax income receivable is different from the estimated income (informed by the calculation of the Council Tax Base) upon which the precepts are based, then a surplus or deficit will arise.

74. For 2019/20, it is estimated that there will be a surplus on the Collection Fund of £246,269 which will be shared in proportion to the 2019/20 precepts and distributed to the preceptors as follows:

COLLECTION FUND SURPLUS - 2019/20		
Preceptor	**Distribution**	
	£	**%**
Isle of Wight Council	220,000	89.3%
Hampshire Police & Crime Commissioner	26,269	10.7%
Total Surplus 2019/20	**246,269**	**100.0%**

The Isle of Wight Council Share of the surplus of £220,000 is factored into the overall Council Tax income for 2020/21.

Total Council Tax Income 2020/21 & Future Years

75. Considering the Council Tax increase, Council Tax Base and surplus on the Collection Fund, the total Council Tax income for 2020/21 is estimated at £89,763,100.

76. As Government funding reduces, rises in Council Tax income are fundamental to the Council's future financial position and therefore the future sustainability of Council Services. The Council's Medium Term Financial Forecast assumes that Council Tax Income will rise to £95,580,800 by 2023/24 and is based on the following assumptions:

- Annual increases in the amount of Council Tax of 1.99% per annum for 2021/22 and thereafter
- Modest growth in the Council Tax Base of 0.2% per annum over the period

Funding Summary

77. In overall terms, funding from Government Grants, Business Rates and Council Tax is estimated to increase by 3.6% amounting to £5.4m in 2020/21, largely due to the additional funding for Social Care (£3.0m Social Care Grant and £1.7m Adult Social Care Precept).

78. Over the following 3 year period of the Council's forecast, funding is anticipated to rise by just 4.4% (or an average of 1.5% p.a), reflecting 2% per annum increases in Council Tax, an increase in Government Funding arising from the inclusion of the "Island Factor" in the Fair Funding Review at £2.5m but offset by the estimated impact of the Business Rate Retention "reset" which is expected to remove £5.1m of Business Rate Growth and which is not fully compensated by its re-distribution back to Local Authorities generally.

Spending Proposals 2020/21

79. In general the Council's budgets have been prepared to include an allocation for inflation to enable the Council to operate "steady state" services.

80. The Council is however experiencing substantial cost pressures now in Adult and Children's Social Care in particular which are fully expected to continue and increase in 2020/21.

81. The forecast cost pressures relating to Adult Social Care are substantial and include:

- Care provider fees due to the 6.2% increase in the National Living Wage
- Rising number of clients that can no longer afford to fund their own care, the cost of which subsequently falls on the Council
- Children transitioning from Children's Social Care to Adult Social Care
- Increase costs of the Out of Hours Service
- Increases in contract costs for Advocacy, Homecare and Supported Living
- Increased numbers of assessments required under "Deprivation of Liberties"

82. The forecast cost pressures relating to Children's Social Care are also significant and include:

- An existing underlying deficit of £1.4m arising from the sustained increase in Children Looked After

- An increase in the number of children identified to have special educational needs and causing a strain on the Home to School Transport budget

83. In order to reasonably provide for those cost pressures and any others that may arise during the year, the proposed Budget 2020/21 (Appendix A) provides for the following increases:

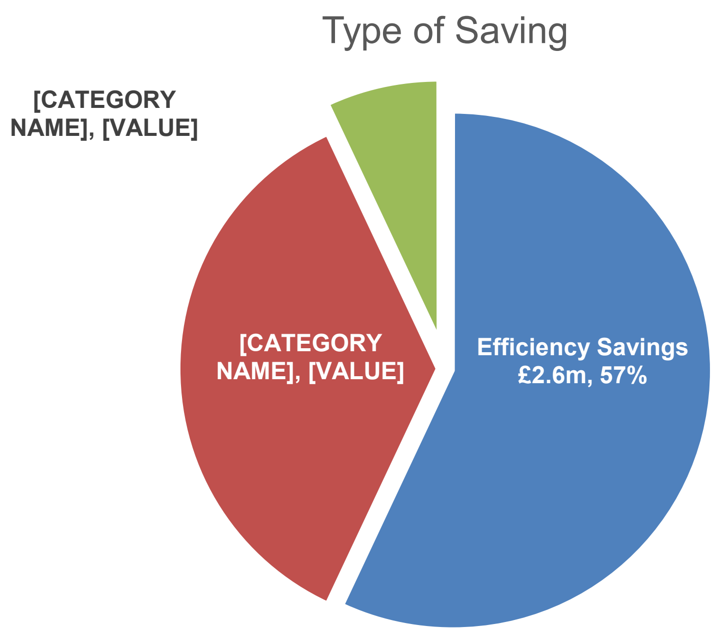
i) Adult Social Care - £4.5m
ii) Children's Social Care - £1.7m

84. Budget pressures within all other Services of the Council are expected to be able to be managed within their overall cash limit. The Council does however maintain a corporate contingency to manage all risks across the Council which could not reasonably be addressed within the Portfolio.

Savings Proposals 2020/21

85. The Administration's savings proposals are focussed on an "Avoidance to Cuts" approach in line with the Medium Term Financial Strategy. In overall terms, the proposed £4.5m of savings are characterised as follows:

86. For 2020/21, 93% of all savings proposed are planned from Efficiency Savings and Additional Income with Service Reduction measures amounting to just 7% as illustrated in the chart below:



87. A summary of the overall savings proposals for 2020/21, by Portfolio, is set out below.

Portfolio	**Controllable Budget**	**Savings Proposal**	
	£	**£**	**%**
Adult Social Care, Public Health & Housing Needs*	49,403,911	1,542,700	3.1%
Children's Services, Education & Skills	24,259,004	341,000	1.4%
Community Safety & Public Protection	10,046,454	170,300	1.7%
Environment & Heritage	8,629,007	270,600	3.1%
Infrastructure & Transport**	10,961,276	797,300	7.3%
Leader & Strategic Partnerships	791,816	0	0.0%
Planning & Housing Renewal	1,606,122	128,500	8.0%
Procurement, Waste Management, Projects & Forward Planning	4,109,329	250,100	6.1%
Regeneration & Business Development	1,296,345	93,500	7.2%
Resources	16,015,608	906,000	5.7%
Grand Total	**127,118,872**	**4,500,000**	**3.5%**

*Excludes the additional funding passported through to Adult Social Care of £4.5m (which if included would result in an overall increase of 6%) and the additional funding for Children's Services, Education & Skills of £1.7m (which if included would result in an overall increase of 5.8%)

** Excludes £19.4m of PFI grant funding, on a Gross expenditure basis the savings amounts to 2.6%

88. Inevitably, there are a number of financial risks contained within the proposals for making savings of the scale of £4.5m on the back of making over £82m in savings over the past 9 years. The risks are unavoidable. For those risks with the highest likely impact such as Children's Services and Adult Social Care, mitigation strategies and contingency provision have been made.

89. It is important to note that the Council's responsibility is to set the overall Budget of the Council and determine the individual Budget for each Portfolio / Service. It is not the responsibility of the Council to approve the detailed savings that need to be made in order for the Portfolio / Service to meet its own Budget. The Council do need to have the confidence that the recommended savings for each Portfolio are deliverable and what the likely impact of delivering those savings might be. Indicative savings that are likely to be necessary in delivering the overall Portfolio savings are attached at Appendix C and whilst the detailed savings are not a matter for the Council to decide, they are presented to inform the decision of Council relating to the savings to be made by each Portfolio / Service.

90. For savings proposals that require consultation, the actual method of implementation or their distributional effect will not be determined until the results of consultation have been fully considered. Following consultation, the relevant Portfolio Holder may alter, amend or substitute any of the indicative savings proposal(s) set out in Appendix C with alternative proposal(s) amounting to the same value.

Summary of Proposed Revenue Budget 2020/21

91. The proposed Budget for 2020/21 has been prepared to include the following:

Spending 2020/21:

- Additional funding for Children's Services, recognising the sustained increase in Looked after Children and the rising cost of Home to School Transport - £1.7m
- Additional Funding for Adult Social Care recognising the need to meet demographic pressures and the extraordinary inflationary costs associated with the National Living Wage - £4.5m
- Continuation of funding through the Improved Better Care Fund for the Living Well, Raising Standards Initiative, Re-ablement and additional staffing - £1.1m
- Continuation of "Winter Pressures" programme supporting the NHS to accommodate increased demand for hospital admissions and discharges - £0.8m
- Inflationary costs and other cost pressures amounting to £3.7m in order to provide "steady state" services
- Overall contingency provision to cover known and anticipated financial risks of the Council amounting to £3.5m, especially those relating to increases in demand for Adult & Children’s Social Care services, Emergency Repairs risks and the delivery of budget savings more generally
- A transfer of £1.5m to the Transformation Reserve in order to replenish it to levels sufficient to be capable of meeting future Spend to Save initiatives
- A Revenue Contribution to the Capital Programme of £1.0m, previously budgeted for and upon which the Capital Investment proposals set out later in this report rely upon
- Allocations within the Council's Corporate Contingency to allow the Council to progress the following potential opportunities:
    - Camp Hill - to enable the Council to undertake proper due diligence and business case evaluation to evaluate the prospects for the Council's "One Public Service" strategy as well as additional housing
    - Medina Bridge - to enable the Council to undertake an outline feasibility study into the potential for its construction and financing
    - Undercliff Drive - to cover the cost of a public consultation to help inform how the Council should proceed
- The £4.5m savings proposals as set out in Appendix C

Funding 2020/21:

- An overall increase in Government Funding of £2.4m (mainly relating to the increase in the Social Care Grant of £3.0m and offset by reductions to the New Homes Bonus grant)

- Cessation of the 75% BRR pilot - reduction of £1.0m of retained business rates (previously used to supplement the Capital Programme)
- Changes arising from the increase in Business Rates due to the inflationary uplift in the multiplier (1.63%) and offset by a real decline in the Business Rate Base
- An overall increase in Council Tax of 3.99%, yielding £3.4m
- An increase in the Council Tax base equivalent to 334.7 Band D properties yielding £0.6m
- Overall "one-off" surplus on the Collection Fund attributable to the Council amounting to £0.6m, representing a surplus on Council Tax of £0.2m and a surplus on Business Rates retained of £0.4m

92. The combination of the spending and funding proposals in the proposed Budget for 2020/21 above combine to provide a Balanced Budget, requiring no contribution from General Reserves and keeping them intact at the originally budgeted level of £12.2m. This allows them to be available for the planned "smoothing out" of the Council's future savings requirements over a longer period of time.

93. The proposed Budget for 2020/21, including the main changes described above results in net spending of £158,877,200. This amounts to a net increase in spending of £8,545,000 or 5.7% over the Original Budget 2019/20 and is recommended for approval.

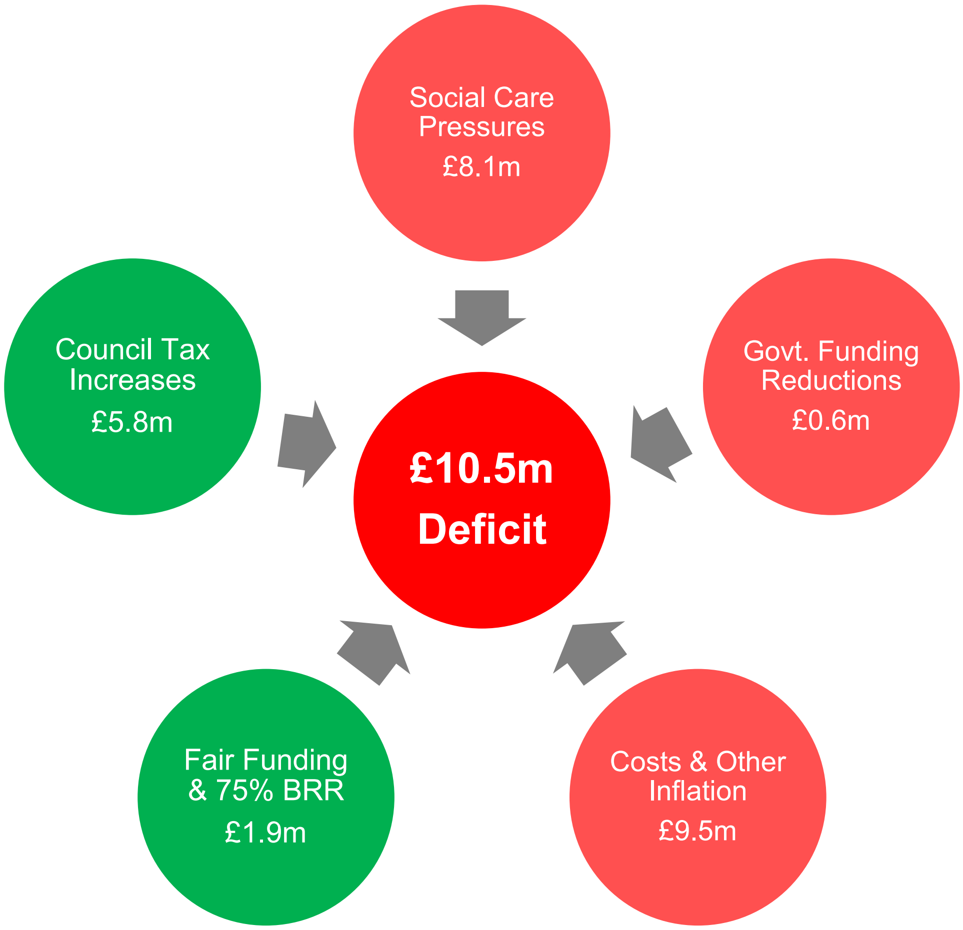
REVENUE FORECASTS 2021/22 TO 2023/24

94. A new medium term forecast has now been completed and "rolled on" a further year to cover the period 2021/22 to 2023/24. All of the financial assumptions have been comprehensively revised and a savings requirement for the new period determined.

95. The previous medium term forecast estimated that savings of £13.5m would be required across the 3 year period 2020/21 to 2022/23. The proposed Revenue Budget for 2020/21 provides for £4.5m of those savings that, based on the "old" forecast, would have left a residual £9m remaining to be found for the following 2 years.

96. The new medium term forecast takes account of the £4.5m savings being achieved in 2020/21, comprehensively revises the remaining £9m that was estimated to be required and makes a forecast for the additional year 2023/24. It is now estimated that the savings required for the new 3 year period 2021/22 to 2023/24 will now be £10.5m as described in the paragraphs that follow.

97. The most significant changes that will affect Local Government and the Council through the period 2021/22 to 2023/24 are as follows:



98. The most significant assumptions in the medium term future forecasts for the period 2021/22 to 2023/24 are described below:

Spending:

- Cost and inflationary pressures of £9.5m covering all pay and prices (assuming pay awards of 2.0% per annum, specific contract inflation and CPI / RPI increases in line with the forecasts of the Office for Budget Responsibility)
- Cost pressures in both Adult and Children's Social Care of £8.1m
- Revenue contributions to Capital and the Transformation Reserve totalling £1.5m in 2021/22 and £0.75m in 2023/24 in order to forward plan for the "Capital Gap" (described later in this report) and to maintain the Transformation Reserve at levels consistent with continuing to be able to support Spend to Save initiatives and any redundancy costs
- An assumption of a steady state for all budgets

Funding:

- A 1.99% increase in Council Tax per annum from 2021/22 onwards, in total yielding £5.8m
- Non-recurrence of the current £0.6m surplus of the Collection Fund

- Indexation uplifts on retained Business Rates of 2.0% p.a from 2021/22 onwards
- An underlying zero growth assumption for changes in Business Rates from 2021/22 onwards, to reflect the uncertainty relating to appeals and mandatory reliefs
- That any loss of business rates income arising from National Business Rate reduction / capping initiatives will continue to be recompensed by Government via S.31 grant funding
- The combined impact of the Fair Funding Review and the 75% Business Rate Retention scheme is expected to be a net increase in funding of £1.9m. This includes recognition of the "Island Factor" at £2.5m. It also recognises the loss of existing Business Rate Growth currently being received of £5.1m which is not fully compensated by a re-distribution of national growth back to the Council, due to an expected "top-slicing" of that growth to fund the continuation of the Social Care Grant. Whilst these assumptions represent a critical risk to the forecast, they remain the central assumption at this stage.

99. It is important to recognise that this forecast extends beyond the multi-year Spending Review planned for the coming year, the Fair Funding Review and the 75% Business Rate Retention Scheme due to be implemented in 2021/22. It also moves 2 years beyond these events and makes broad assumptions at the macroeconomic level pending any indicative information at the local level. Consequently there remains a significant level of uncertainty surrounding the £10.5m forecast deficit which could realistically vary between +/- £4m.

100. It is proposed that the Council takes an evenly managed approach to addressing the £10.5m of savings required over the next 3 years by phasing those savings evenly, as set out below, in order to provide reasonable time for plans and the necessary proposals to be prepared and implemented.

£10.5m Deficit - Next 3 Years		
2021/22	**2022/23**	**2023/24**
£3.5m	**£3.5m**	**£3.5m**

101. Due to the uncertain nature of the future years' forecasts it is imperative that the Council continues to plan for £3.5m of savings per annum as well as maintaining sufficient General Reserves. This is a balanced approach appropriate to an eventuality where the Council's forecasts are either too pessimistic or too optimistic. For example, in the event that the 3 year forecast improves, the Council has not prematurely made a level of savings and service reductions that could have been avoided and it allows more time for savings initiatives to take effect. If the forecast deteriorates, the Council will have made good progress towards the necessary savings and have sufficient General

Reserves to avoid significant "spikes" in Savings Requirements in any single year in the future.

102. Crucially, this savings strategy, as described above, can only work if the Council retains General Reserves at the levels set out in this report. Should the Council elect to follow an alternative savings profile, the Council's financial risk will increase and this will necessarily need to be reflected in the assessment of the minimum level of General Reserves (currently recommended to be maintained at £7.0m) that the Council must hold in order to maintain its financial resilience.

103. In summary, the overall forecast budget deficit and therefore savings requirement has been reduced for both 2021/22 and 2022/23 and the forecast has been "rolled on" to now include the financial year 2023/24. The overall forecast budget deficit and savings requirement for the 3 year period 2021/22 to 2023/24 is £10.5m. Importantly, this level of budget deficit can only be maintained if the Council approves the proposed £4.5m of savings as well as the increase in Council Tax of 3.99% for 2020/21.

104. The medium term financial forecasts are set out as part of the General Fund Summary in Appendix A.

ESTIMATED RESERVES 2019/20 TO 2023/24

105. In general, maintaining adequate reserves is a measure of responsible financial management and strong financial health. They are required in order to be able to respond to "financial shocks" without having to revert to the alternative of quick and severe services reductions. Equally, they can be a vehicle to take advantage of any opportunities that may arise which are in the financial interests of the Council (for example, matched funding opportunities which could lever in additional funding for the Island). Importantly, they also enable differences between expenditure and funding levels to be "smoothed out" and managed in a planned way over time.

106. The Council's approved MTFS described the critical need to restore General Reserves over time in order to improve the Council's overall financial resilience and enable savings to be "smoothed out" over a longer period of time.

107. Operating at a minimum level of reserves and an over reliance on the use of reserves in any one year has the effect of delaying savings from one year and adding them to the following year's savings requirement. This results in a level of savings required in the following year that are likely to be extremely difficult to achieve and with a corresponding drastic reduction in services. It also places the Council in a potential chaotic environment where any unforeseen financial pressures arising in the year would need to be met by equivalent further savings in the same year. This can have a de-stabilising effect on Council services, shifting the focus from driving through efficiencies, income generation and regeneration activities to one that is focused on cuts in services which can be achieved more readily within the timescales.

108. In accordance with Best Practice, a review of the Council's reserves and balances has been undertaken as part of the budget process. The review considers the Council's potential financial risks over the next few years in order

to determine the prudent level of balances that should be retained, based on the Council's risk profile. The assessment of the minimum level of General Reserves takes account of, but is not limited to, the following:

- The current relatively low level of General Reserves representing just 3.3% of Gross Expenditure
- The increasing susceptibility to budget pressures given the magnitude of savings that have been made in the past (i.e. £82m)
- The required level of future savings necessary to remedy the forecast deficit of £10.5m
- The inherent volatility of the Business Rate Retention system (previously described) both now and in the future
- Potential for reduced Council Tax collection rates associated with the reduced level of support provided by the Local Council Tax Support scheme
- Potential liabilities for some substantial disputes against the Council

109. Predicated on the approval of £4.5m of savings for 2020/21 it is considered, given the weight of financial risk being carried by the Council and the other reserves that are maintained for specific purposes, that the minimum General Reserves that should be maintained is £7.0m.

110. The statement below gives details of the General Reserves in hand at 1 April 2019, together with the proposed use of reserves in 2019/20 and 2020/21 rising from the Budget proposals contained within this report. The forecast balances from 2021/22 onwards **assume that the £10.5m savings requirements set out in the previous section are achieved according to the profile described.**

General Reserves Forecast – Up to 2023/24					
Financial Year	Current Year £m	Forecast 2020/21 £m	Forecast 2021/22 £m	Forecast 2022/23 £m	Forecast 2023/24 £m
Opening Balance	11.2	12.2	12.2	11.7	10.1
In Year Surplus / (Deficit)	1.1	0.0	(0.5)	(1.5)	0.0
Forecast Balance	**12.2**	**12.2**	**11.7**	**10.1**	**10.1**

111. The level of balances held over the period will be higher than the minimum level recommended. This prudent approach is being taken for a number of specific reasons, which include:

- The susceptibility of the Council's forecast to the outcome of the Fair Funding Review and the Business Rate Retention "reset" which could vary between +/- £4m
- The need to plan for the transfer of £0.5m of Reserves to the new Combined Fire Authority (CFA) in 2021/22

- The strategy to "smooth out" the Council's necessary savings over longer periods of time, relying on the use of Reserves in some years whilst Savings requirements "catch up"

- The continuing risks associated with the financial sustainability for both Adults and Children's Social Care. For example, should the forecast £4.5m savings not be achieved in 2020/21, General Reserves would be at close to minimum levels by March 2021.

- The balances are predicated on total savings (as yet unidentified) of £10.5m being achieved over the next 3 years. If those savings are not made, balances would be below minimum levels by March 2023.

- The uncertainty over the level of funding generally (in particular retained Business Rates), demographic cost pressures for care services, inflation and interest rates in future years

- The uncommitted balance available in the Transformation Reserve of just £2.5m (see below) means there are only limited funds available to fund the implementation costs of future efficiency savings

112. The underlying level of General Reserves is £11.7m as £0.5m will need to be transferred to the new CFA. Over the period of the 3 year forecast, General Reserves are anticipated to fall to £10.1m and stabilise at that level thereafter. The overall reduction is due to the need to draw on General Reserves in order to evenly "smooth out" the savings profile over the next 3 years. As previously described, it has been a key feature of the Council's MTFS to repair and gently build General Reserves so that they are available (as now required in 2022/23) to draw on them and "smooth savings" at lower levels but over a longer period of time. Whilst operating at a level of General Reserves of £10.1m with an associated level of "headroom" of £3.1m over the minimum level remains modest, it will be at a time where the risks associated with the Fair Funding Review and Business Rate "reset" will be known.

113. In addition to General Reserves, the Council has established a Transformation Reserve which currently has an uncommitted balance of £2.5m. Proposals contained within this report seek to supplement the reserve with a transfer of £1.5m. This reserve was established as one of the Council's primary vehicles to deliver savings. 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.

114. It is anticipated that due to the nature and scale of some of the savings proposals in 2020/21, there will be a need to provide substantial up-front funding from this reserve particularly in Adult Social Care and Children's Services to support their delivery.

115. Maintaining the Transformation Reserve at sufficient levels to support savings delivery through "Spend to Save" and "Invest to Save" schemes is vital to the success of the MTFS and the Council's future Savings Requirements. Accordingly, a strategy for its replenishment is a necessity. The proposed

£1.5m "top up" contribution to the Reserve is vital if this Reserve is to continue to deliver against its intended purpose.

116. The Council's future forecasts plan for the periodic "top up" of this Reserve however depending upon the demands placed on the Reserve, this may be insufficient. It is advisable therefore, that should any further savings be made by year end, consideration be given at that time to any necessary replenishment.

117. The Council maintains a number of other reserves, many of a modest nature, in order to provide for known liabilities in the future. These include:

- The Highways PFI Reserve
- Insurance & Risk Reserve
- Repairs and Renewals Reserve
- Business Rate Retention Reserve

118. For the Council to meet the overall aim of its MTFS, it is important to strike the optimum balance between its key drivers of:

- Delivering savings (income, efficiencies and service reductions) over a manageable period of time which is consistent with maintaining good quality essential services
- Provide sufficient funding for Spend to Save and Invest to Save initiatives through the Council's Transformation Reserve
- Ensure that the Capital Programme is sufficiently funded over the medium term to stimulate the Island Economy and improve the Council's overall financial position
- Maintaining General Reserves at levels that ensure strong financial resilience and financial health to provide a stable platform for all of the above

119. To support this aim and ensure that maximum resources are available for the delivery of necessary savings, it is proposed that any further savings for 2019/20 that are made by year-end (after allowing for specific carry forward requests) be transferred to the Transformation Reserve, Revenue Reserve for Capital (to increase the Capital Resources available) and General Reserves (to improve overall financial resilience) with the level of each transfer determined by the S.151 Officer.

CAPITAL PROGRAMME 2019/20 TO 2024/25

Overall Strategy

120. As described in the MTFS, the strategy is to maximise the capital resources available and then target the investment of those resources to those areas that will enable the Council to meet its statutory responsibilities, stimulate the Island Economy and improve the Council's overall financial position.

121. The development of a Capital Strategy considers investments that will be made in the acquisition, creation, or enhancement of tangible or intangible fixed assets, in order to yield benefits to the council for a period of more than one year. It also considers how stewardship, value for money, prudence, sustainability and affordability will be secured. The Capital Strategy therefore has 3 core aims:

Aim 1 - To support a Medium Term Outlook

- Allocating known resources to future years for critical capital investment, ensuring that in years where capital resources are limited, critical investment can continue to be made
- Aligning known resources and spending, ensuring that uncertain or forecast resources are not applied to current investment, thus leaving potentially unfunded obligations in the future
- Smoothing out any significant gaps between capital investment needs and capital resources available by utilising contributions from revenue

Aim 2 - To Maximise the Capital Resources available and the flexibility of their application

- Setting aside capital funding for "match funding" opportunities, where these are aligned with the Council's strategic objectives in order to take advantage of "free" funding
- Reviewing contractually uncommitted schemes against newly emerging capital investment priorities
- Avoiding ring-fencing of capital resources, except where such ring fencing is statutory
- Using prudential borrowing for "invest to save" schemes, or schemes which generate income

Aim 3 - Targeted Capital Investment

- Annual review of all contractually uncommitted capital schemes which rely on non-ring-fenced funding is undertaken to ensure that they remain a priority in the context of any newly emerging needs and aspirations
- Investment in programmes of a recurring nature that are essential to maintain operational effectiveness
- Invest in 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 income generating or efficiency generating
    - If not implemented would cause severe disruption to service delivery

Capital Resources

122. Capital resources available for ‘new starts’ in 2020/21 and onwards have been reviewed and the amount available to be allocated has been determined as £6.6m. This is a lower figure than usual as the capital budget set in February 2019 included the planned borrowing for regeneration over the next 5 years, as well as allocating indicative grant funding amounts for schools for 3 years. This approach was taken to enable a longer term programme of projects and schemes to be developed in both service areas with some certainty around future funding. As a result these amounts have already been approved to schemes and are not included in the ‘new starts’ resources available for 2020/21.

123. Additionally, a small contingency has been retained to mitigate the risk of capital receipts and grants being lower than anticipated and some funding has been held back to meet unavoidable increases in costs to approved schemes and to support match funding bids for additional external funding.

124. The total capital resources available to the Council for ‘new starts’ in 2020/21 and onwards are described below:

Corporate Capital Resources

125. This includes all non-ring-fenced capital grants (e.g. local transport plan, education basic need and school condition funding), capital receipts and revenue contributions and are described below:

- A planned £1m contribution from the Revenue Budget 2020/21 which was built into the previous budget forecast
- Non-ring-fenced capital grants (Integrated Transport Block) of £1.4m
- A further £2.2m of existing capital resources which were set aside from the revenue underspend at the end of 2018/19 in line with the recommendation approved at February 2019 Full Council, as well as resources allocated to projects which either underspent, were funded from alternative sources or upon review, are no longer considered to be a priority

Ring-fenced Capital Funding

126. Funding passported to the Better Care Fund which, whilst not ring-fenced, is targeted at disabled facilities grants and wider social care programmes and is required to be prioritised by the Council and the Isle of Wight Clinical Commissioning Group. This is a central government initiative which creates a pooled budget arrangement between the Council and the Isle of Wight Clinical Commissioning Group and an estimated £2m will be received by the Council in 2020/21

Prudential Borrowing

127. Prudential borrowing is available for "Invest to Save" schemes only where those savings must accrue directly to the Council on a sustained basis. Prudential Borrowing is governed by the Prudential Code and its associated tests of affordability, sustainability and prudence. Prudential borrowing is what is termed “unsupported borrowing” and means that the Government does not provide any revenue support through government grant for the repayment of that debt (neither principal nor interest).

128. The Affordability test dictates that the Council must be able to demonstrate that it can afford the debt repayments over the long term. Given the future forecast deficits of the Council, prudential borrowing is only available for invest to save schemes where there is a demonstrable case that the capital expenditure incurred will result in savings (i.e. cost reduction or additional income) that at least cover the cost of borrowing. Also, that those savings accrue directly to the Council and will be available on a sustained basis over the lifetime of any borrowing.

Capital Investment Proposals ("New Starts") - 2020/21

129. Proposals for the allocation of the Council's ‘new start’ capital resources of £6.6m are set out in Appendix D for approval. They comprise a balanced set of proposals which:

- Ensure the medium term resilience of essential core services and facilities, including critical IT infrastructure and digital transformation schemes
- Support the Council’s Care Close to Home strategy, including adaptions to peoples’ homes
- Invest in highways network integrity priority works including bus infrastructure, capital maintenance, dropped kerbs and disabled bays, rail bridge improvements, signage and speed limits, as well as the highest priority safety and improvement schemes.

Proposed Capital Programme 2019/20 to 2024/25

130. The overall Capital Programme, including all existing schemes which have been reviewed and considered as a continuing priority, and proposed new schemes is set out in Appendix E for approval.

Future Capital Obligations, Priorities and Aspirations

131. The proposals for capital investment contained within this report complement the existing capital programme and provide further solidity to secure the Council's financial viability for the medium term. Nevertheless, the Council will inevitably face future obligations of a statutory nature as well as wish to further develop its priorities and aspirations for future capital investment to meet its overall aim of financial and public service sustainability.

132. Known obligations and aspirations, in line with the MTFS, for future capital investment once further capital resources become available include:

Statutory Obligations:

- Additional extensions / additions to schools in the primary sector in order to provide for additional school places
- Provision of additional disabled facilities grants
- Requirements to improve road safety, disabled access and air quality

Improving the Island Economy:

- Further development of key employment, housing and regeneration sites
- Developing the Digital Island
- Coastal protection schemes to protect homes and businesses
- Improvements to road transport infrastructure as a means of supporting new business growth and productivity generally as well as the protection of the tourism economy

Public Service Transformation:

- Developing the aspirations for "One Public Service" for the Island - providing integrated and co-ordinated strategy and delivery of public services across different public bodies
- Developing the Digital Council
- Further supported living facilities for Adult Social Care clients
- Use of technology to provide greater personal independence for those with care needs

133. The scale of the funding required for these obligations and aspirations is such that it far outstrips the annual capital funding which may be available. With core capital funding of circa £4.7m, there is a hugely significant shortfall ("Capital Gap") to be met. Furthermore, of this £4.7m of available funding, £2.2m is ring-fenced for Disabled Facilities Grants and Devolved Formula Capital for Schools. From the residual £2.5m, there is an expectation from Central Government that amounts allocated for Education (circa £1.1m p.a) should be allocated for School Condition and there is an obligation to maintain a Local Transport Plan from the annual £1.4m provided from Department for Transport. The overall implication being that there is virtually no routine annual funding available for Capital Investment beyond those items described above.

134. Given the scale of the "Capital Gap" described above, the necessity to supplement the Capital Resources available remains an explicit feature of the Council's approved MTFS so that the Council can continue to fund essential services but also fund Regeneration and Income Generation schemes aimed at improving the overall financial sustainability of the Council and the economy of the Island. For this reason, it is recommended that the S.151 Officer be given delegated authority to transfer all or part of any further savings made in

2019/20 arising at the year-end to supplement the Capital Resources available for future years.

STATEMENT OF THE SECTION 151 OFFICER IN ACCORDANCE WITH THE LOCAL GOVERNMENT ACT 2003

135. Section 25 of the Local Government Act 2003 ("the Act") requires the Chief Financial Officer to report to the Council on the following matters:

- The robustness of the estimates included in the Budget made for the purposes of setting the Council Tax; and
- The adequacy of proposed financial reserves

136. Section 25 of the Act concentrates on uncertainties within the budget year rather than the greater uncertainties in future years. In the current economic climate, there continue to be uncertainties in both the current and future years i.e. beyond 2020/21. Particular uncertainties exist regarding the extent of successful appeals and mandatory reliefs which affect Retained Business Rates, Government Funding levels (including the outcome of the Fair funding Review and the 75% Business Rate Retention scheme), the ability of the Council to continue to make the necessary savings at the required scale and pace, the likely demographic cost pressures arising in demand driven services such as Adults and Children's Social Care and the extent to which new policy changes will be funded (most notably those arising from the Care Act). All of these uncertainties increase the need for adequate reserves and balances to be maintained in current and future years

137. A minimum level of revenue reserves must be specified within the Budget. The Council must take full account of this information when setting the Budget Requirement.

138. Should the level of reserves fall below the minimum approved sum of £7.0m as proposed in this report, either arising from an overspend in the previous year or the current year, the S.151 Officer has a duty to report this to the Council with recommendations as to the actions that should be taken to rectify the shortfall. In the most extreme of circumstances, the S.151 Officer can impose spending controls until a balanced budget is approved by the Council.

Robustness of the Budget

139. In setting the Budget, the Council should have regard to the strategic and operational risks facing the Council. Some of these risks reflect the current economic climate and the national issues surrounding Local Authority funding levels.

140. Estimates and forecasts have been prepared to include all known significant financial factors over the medium term in order to inform spending decisions.

141. Assumptions for the Budget and forecasts for future years are considered to be sound and based on the best available information. These are set out in detail under the Section entitled "Revenue Forecasts 2021/22 to 2023/24" and use the following sources as their evidence base:

- Government funding as set out in the provisional settlement for 2020/21
- A "no growth" assumption for Retained Business Rates from 2021/22 onwards on the basis that any income arising from growth will be offset by both appeals and reliefs
- An assumption that the current rateable value (for businesses) will be reduced by 4.7%, based on Government estimates of appeals arising against the 2017 rating list
- Increases in Council Tax based on what is likely to be acceptable and within expected referendum limits
- Inflation on Retained Business Rates and prices in accordance with inflation estimates from the Office for Budget Responsibility
- Provisions for anticipated national policy changes arising out of the Care Act based on the Isle of Wight Council's share of "relative need"[5]
- Specific provisions for increases in demand for both Adults & Children's Social Care based on current trends
- Prudential borrowing requirements based on approved Capital schemes
- Revenue contributions to capital based on estimates of future needs
- Balances and contingencies based on a risk assessment of all known financial risks

142. Savings contained within the Budget are those where Portfolio Holders and Directors assess the confidence level of achievement is medium and above. Savings proposals will also be subject to scrutiny by Members. Responsibility and accountability for delivering the savings rests with the relevant Portfolio Holders and Directors and progress will be monitored throughout the year as part of the Budget Monitoring process.

143. The most volatile budgets are those of Adults and Children's Social Care. Budget provision has been made available to cover these risks both directly within the Service Budget as well as within the Council's overall contingency provision.

144. The forecasts prepared for the forthcoming and future years are robustly based and illustrate the expected costs the Council will incur in order to deliver current levels of service.

145. Portfolio Holders will be given regular budget updates by Directors to ensure that action to address any potential variance is taken promptly and quarterly budget monitoring reports will continue to be presented to the Cabinet.

146. Prudential Indicators are accurately calculated based on the Council's audited Balance Sheet, notified income streams and in depth financial appraisals of proposed capital schemes. These are published and reviewed on a regular

[5] Relative need is based on the Government's "Relative Needs Formula" that is used in allocating general government funding

basis to ensure that the Council complies with the concepts of Affordability, Prudence, and Sustainability. The Council can only consider Prudential Borrowing for “Spend to Save Schemes”, as it is currently unaffordable for any other purpose given the forecast budget deficits in 2021/22 and future years.

147. Future years’ budgets will be particularly challenging due to continued funding reductions and uncertainties. The Council's forecasts plan for a savings target of £3.5m in 2021/22, £3.5m in 2022/23 and £3.5m in 2023/24

The Adequacy of Proposed Financial Reserves

148. The Council's General Reserves have been proposed at levels that are consistent with the Council's financial risks over the medium term and take account of the level of the Council's Corporate Contingency as well as other earmarked reserves that are set aside for risk events such as the Insurance Reserve, Repair and Renewals Reserve and the Business Rate Retention Reserve.

149. Reserves provide a buffer against unexpected costs such as pay awards, inflation, shortfalls in income and overspends and enable the Council to manage change without undue impact on the Council Tax or immediate reductions to services. They are a key element of strong financial standing and resilience as they mitigate risks such as increased demand and other cost pressures.

150. The level of General Reserves held will be higher than the minimum level required. This approach is in accordance with the approved MTFS in order to "smooth out" the necessary savings to meet the future forecast budget deficits in a planned and managed way. The position will continue to be reviewed and reported to Members on an annual basis.

151. The Transformation Reserve is the Council’s primary vehicle for funding Spend to Save and Spend to Avoid Cost Initiatives and Feasibility Studies, and currently stands at just £2.5m. In order for this Reserve to continue in this capacity, it will be necessary to replenish it from any further savings, transfers from other reserves no longer required or alternatively from the Revenue Budget in future years.

152. The Council maintains a number of other Earmarked Reserves for specific purposes, all of which are at the levels required to meet known future commitments.

153. The Council’s core contingency provision for 2020/21 has been set on a risk basis at £3.5m and reflects anticipated calls on the budget where the timing and value is not yet known. The use and application of the contingency will be exercised tightly.

154. At the proposed levels, the Council reserves are reasonably expected to be sufficient to accommodate the Council's financial risks and maintain the Council's overall financial health.

STRATEGIC CONTEXT

155. The Council's Budget for 2019/20 and 2020/21, the level of Council Tax and the Capital Programme 2019/20 to 2024/25 represent the Council's detailed plan for 2020/21 and set the direction for the medium term. They are set within the context of the Council's approved Corporate Plan and Medium Term Financial Strategy.

CONSULTATION

156. The proposals set out in this report have been prepared in consultation with the Cabinet and wider members of the Conservative Administration.

157. The Portfolio savings amounts proposed within this report will inevitably impact on service provision. Appendix C describes the indicative savings that might (or are likely) to be made in order to achieve the proposed savings amounts. Whilst some are likely to be implemented, there will be others that require consultation and appropriate Equality Impact Assessments to be considered before any implementation can take place. For this reason, any savings proposal set out in Appendix C can be altered, amended or substituted with an alternative proposal following appropriate consultation.

158. An Island-wide budget consultation took place over the period 5 November 2019 to 6 December 2019 as previously described. The Scrutiny Committee will also review the proposals contained within this report and have the opportunity to make their representations to the Cabinet.

FINANCIAL / BUDGET IMPLICATIONS

159. All of the financial implications arising from the recommendations are contained within the body of the report and its appendices.

LEGAL IMPLICATIONS

160. The council will need to set a lawful and balanced budget and Council Tax level for 2020/21 by the statutory deadline of 11 March 2020. In developing any proposals for budget changes the necessary equality impact assessments and any consultation processes will need to be followed.

161. 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.

EQUALITY AND DIVERSITY

162. 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 will be annexed to the report to Full Council in respect of the relevant proposals that arise out of these recommendations.

PROPERTY IMPLICATIONS

163. The property implications contained within this report seek to improve the sufficiency, condition and efficiency of the Council's existing property estate. Proposals for land acquisitions are intended to provide sites for regeneration and employment and will only be purchased after full and proper due diligence. Potential new build proposals will also be the subject of a full financial appraisal and proper due diligence.

OPTIONS

164. The proposed Budget for 2019/20 and 2020/21, associated Savings Requirements, use of General Reserves and the Capital Programme have been prepared in accordance with the Council's approved Medium Term Financial Strategy. These proposals 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. The options available within a cohesive Financial Strategy are:

A. In respect of the Revenue Budget 2020/21:

i) Approve the recommendations set out in this report

ii) Reduce the proposed increase in Council Tax and increase the level of savings noting that every 1% reduction in Council Tax will require an increase in savings of £861,000

iii) Increase the use of General Reserves used in 2020/21 and reduce the level of savings accordingly, acknowledging that:

(a) In doing so, the level of savings in 2021/22 and future years will increase providing an uneven profile of savings which is contrary to the approved Medium Term Financial Strategy and the Council's financial resilience will reduce at a time of unprecedented uncertainty for the future of Local Government funding

(b) The minimum level of Reserves to be maintained will need to be increased in response to the increase in financial risk

iv) Amend the allocation of Savings Requirements between Portfolios by reducing savings in one or more Portfolios and providing replacement savings of equivalent value in one or more other Portfolios

v) A combination of options (ii) to (iv) above

vi) Set a Council Tax for General Purposes at a level above 1.99% and undertake a local referendum

B. In respect of the Capital Programme 2019/20 to 2024/25 as set out in Appendix E:

i) Approve the recommendations set out in this report

ii) Amend the proposed "New Start" Capital Schemes by reducing / deleting proposed Capital Schemes and replacing with alternative Capital Schemes of equivalent value

iii) Amend the proposed "New Start" Capital Schemes by reducing / deleting capital schemes and retaining the amount of Corporate Capital resources available for future Capital Programmes

RISK MANAGEMENT

165. 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 Budget and Council Tax proposals set out in this report are part of a cohesive plan which conforms to the Council's approved Medium Term Financial Strategy. The strategy provides both structure and direction to achieve the financial challenge in a way that is aligned with the Council's corporate objectives and minimises cuts to essential services.

166. The key risk is that the Council does not approve a Revenue Budget for 2020/21 and a Capital Programme that conforms to its Medium Term Financial Strategy and as a consequence the approach to cost savings / additional income/funding is disorderly with sub optimal decisions taken which lead to greater than necessary cuts to essential services. Furthermore, that proposed amendments relating to reductions in the level of Council Tax or increases in the use of General Reserves are "unbalanced" which ultimately compromise the financial health and resilience of the Council and as a consequence jeopardise the future of Council Services.

167. The robustness of the Budget and adequacy of Reserves is described in the section entitled "Statement of the Section 151 Officer in Accordance with the Local Government Act 2003".

168. Key risks relating to the Capital Programme are any amendments to the proposed programme to:

- Delete or reduce operationally essential schemes which have the potential to compromise IT system integrity and support and create serious disruption to Council Services
- Delete or reduce operationally essential schemes which have the potential to close buildings from which Council Services operate
- Delete or reduce schemes which are of a critical Health & Safety nature

- Delete or reduce schemes of a cost avoidance, income generating or regeneration nature which could compromise the future financial viability of the Council and delivery of essential services

EVALUATION

169. Option **A (i)** and **B (i)** are recommended. The Budget and Council Tax proposals set out in this report are part of a cohesive plan which conforms to the Council's approved Medium Term Financial Strategy and is consistent with the Council's Corporate Plan. In particular:

- It provides substantial additional funding for Adult Social Care and Children's Services, bringing financial stability to those essential services
- It provides for a "smoothing" of savings over a planned period enabling the Council to maximise its operational capacity to implement initiatives at pace aimed at increasing income / funding and reducing costs and providing time for "alternative to cuts" initiatives to take effect
- Reduced the overall Savings Requirements for future years from £4.5m per annum to £3.5m per annum
- Maintains the overall financial resilience of the Council at a time of unprecedented uncertainty for the future of Local Government Funding, enabling the Council to avoid more immediate and deeper savings in the event of a pessimistic outcome
- Provides for a balanced budget once the Council's £7m per annum saving on debt repayments comes to an end in 2022/23
- An increase in Council Tax of 3.99% avoids further cuts to essential services to residents and improves the funding base for the future
- Ensures that sufficient funding is available to enable, or "pump prime" Spend to Save (Revenue) and Invest to Save (Capital) schemes as one of the primary vehicles to address future savings requirements
- Provides for the £0.5m transfer of General Reserves to the potential new Combined Fire Authority
- Provides additional funding from the Revenue Budget to the Capital Programme in order to meet the Council's essential statutory obligations and its aspirations to transform public services and stimulate the Island Economy
- Maximises the Capital Resources available to the Council for investment over the medium term balanced across essential services, regeneration and invest to save purposes

RECOMMENDATION

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

(a) The revised Revenue Budget for the financial year 2019/20 and the Revenue Budget for the financial year 2020/21 as set out in the General

Fund Summary (Appendix A)

(b) Any variation to the Council's funding arising from the final Local Government Finance Settlement be accommodated by a transfer to or from General Reserves

(c) Any further savings made in 2019/20 arising at the year-end (after allowing for specific carry forward requests) be transferred to the Transformation Reserve, Revenue Reserve for Capital (to increase the Capital Resources available) and General Reserves (to improve overall financial resilience) with the level of each transfer to be determined by the S.151 Officer

(d) That the level of Council Tax be increased by 1.99% for general purposes in accordance with the referendum threshold[6] for 2020/21 announced by Government (as calculated in Appendix B)

(e) That the level of Council Tax be increased by a further 2.0% beyond the referendum threshold (as calculated in Appendix B) to take advantage of the flexibility offered by Government to implement a "Social Care Precept"; and that in accordance with the conditions of that flexibility, the full amount of the associated sum generated of £1,721,900 is passported direct to Adult Social Care

(f) That the amounts set out in Appendix B be now calculated by the Council for the financial year 2020/21 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992

(g) The S.151 Officer be given delegated authority to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Police & Crime Commissioner and Parish and Town Council precepts and amend the calculations set out in Appendix B accordingly

(h) The savings proposals for each Portfolio amounting, in total, to £4.5m for 2020/21 and continuing into future years as set out on the next page:

Portfolio	**Controllable Budget**	**Savings Proposal**	
	£	**£**	**%**
Adult Social Care, Public Health & Housing Needs*	49,403,911	1,542,700	3.1%
Children's Services, Education & Skills	24,259,004	341,000	1.4%
Community Safety & Public Protection	10,046,454	170,300	1.7%
Environment & Heritage	8,629,007	270,600	3.1%
Infrastructure & Transport**	10,961,276	797,300	7.3%
Leader & Strategic Partnerships	791,816	0	0.0%
Planning & Housing Renewal	1,606,122	128,500	8.0%

[6] Council Tax increases beyond the referendum threshold can only be implemented following a "Yes" vote in a local referendum

Procurement, Waste Management, Projects & Forward Planning	4,109,329	250,100	6.1%
Regeneration & Business Development	1,296,345	93,500	7.2%
Resources	16,015,608	906,000	5.7%
Grand Total	**127,118,872**	**4,500,000**	**3.5%**

*** Excludes the additional funding passported through to Adult Social Care of £4.5m (which if included would result in an overall increase of 6%) and the additional funding for Children's Services, Education & Skills of £1.7m (which if included would result in an overall increase of 5.8%)**

****Excludes £19.4m of PFI grant funding, on a Gross expenditure basis the savings amounts to 2.6%**

(i) Directors be instructed to start planning how the Council will achieve the savings requirements of £10.5m for the 3 year period 2021/22 to 2023/24 and that this be incorporated into Service Business Plans

(j) The minimum level of Revenue Balances as at 31 March 2021, predicated on the approval of £4.5m savings in 2020/21, be set at £7.0m to reflect the known and expected budget and financial risks to the Council

(k) Members have regard for the "Statement of the Section 151 Officer in accordance with the Local Government Act 2003"

(l) The Capital Programme 2019/20 to 2024/25 set out in Appendix E which includes all additions, deletions and amendments for slippage and re-phasing

(m) The new Capital Investment Proposals ("New Starts") - 2020/21 set out in Appendix D be reflected within the recommended Capital Programme 2019/20 to 2024/25 and be funded from the available Capital Resources

(n) The allocation of Disabled Facilities Grants be made to the Better Care Fund, and reflected within the recommended Capital Programme 2019/20 to 2024/25

(o) The S.151 Officer be given delegated authority to determine how each source of finance is used to fund the overall Capital Programme and to alter the overall mix of financing, as necessary, to maximise the flexibility of capital resources used and minimise the ongoing costs of borrowing to the Council

(p) That the S.151 Officer in consultation with the Leader of the Council be given delegated authority to release capital resources held back for any contingent items that might arise, and also for any match funding requirements that may be required of the Council in order to secure additional external capital funding (e.g. bids for funding from Government or the Solent Local Enterprise Partnership)

(q) The Capital Strategy 2020/21, including the Minimum Revenue Provision

Policy Statement contained therein (attached at Appendix F)

(r) The Investment Strategy 2020/21 (attached at Appendix G)

171. It is recommended that the Council note the following in respect of the Council's Budget:

(a) The Revenue Budget 2020/21 as set out in Appendix A has been prepared on the basis of a 3.99% increase in Council Tax, any reduction from the overall 3.99% Council Tax increase proposed will require additional savings of £861,000 for each 1% reduction in order for the Budget 2020/21 to be approved

(b) The Revenue Forecasts for 2021/22 onwards as set out in the section entitled "Revenue Forecasts 2021/22 to 2023/24" and Appendix A

(c) The estimated Savings Requirement of £10.5m for the three year period 2021/22 to 2023/24, for financial and service planning purposes, be phased as follows:

Financial Year	In Year Savings Requirement £m	Cumulative Saving £m
2021/22	3.5	3.5
2022/23	3.5	7.0
2023/24	3.5	10.5

(d) The Transformation Reserve held to fund the upfront costs associated with Spend to Save Schemes and Invest to Save Schemes holds a very modest uncommitted balance of £2.5m and will only be replenished from contributions from the Revenue Budget and an approval to the transfer of any further savings at year end

(e) Should the Council elect to reduce the level of savings below £3.5m in 2021/22 (and £3.5m p.a thereafter), the Council's financial risk will increase and therefore the minimum level of General Reserves held will also need to increase in order to maintain the Council's financial resilience

(f) The Council Tax base for the financial year 2020/21 will be **53,842.7** [item T in the formula in Section 31 B(1) of the Local Government Finance Act 1992, as amended (the "Act")].

(g) The Council Tax element of the Collection Fund for 2019/20 is estimated to be a surplus of £246,269 which is shared between the Isle of Wight Council (89.3%) and the Police & Crime Commissioner (10.7%)

(h) The Business Rate element of the Collection Fund for 2019/20 is estimated to be a surplus of £375,000

(i) The Retained Business Rate income[7] for 2020/21 based on the estimated Business Rate element of the Collection Fund deficit as at March 2020, the Non Domestic Rates poundage for 2020/21 and estimated rateable values for 2020/21 has been set at £38,235,692

(j) The Equality Impact Assessment (attached at Appendix H)

APPENDICES ATTACHED

172. The following appendices are attached:

- Appendix A - General Fund Summary
- Appendix B - Council Tax 2020/21 (calculated by the Council for the financial year 2020/21 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992)
- Appendix C - Indicative Savings 2020/21
- Appendix D - New Capital Schemes starting in 2020/21
- Appendix E - Capital Programme 2019/20 to 2024/25
- Appendix F – Capital Strategy 2020/21
- Appendix G – Investment Strategy 2020/21
- Appendix H – Equality Impact Assessment

[7] Includes Retained Business Rates of £19.5m, "Top Up" of £13.1m, S.31 Grants of £5.2m and a Collection Fund surplus of £0.4m

BACKGROUND PAPERS

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

    a. The Council's approved Medium Term Financial Strategy can be found at: https://www.iwight.com/Meetings/committees/mod-council/19-10-16/Paper%20B.pdf

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Deputy Leader and Cabinet Member for Resources