



Agenda Item Introduction

Committee **CORPORATE SCRUTINY COMMITTEE**

Date **7 NOVEMBER 2023**

Topic **BUDGET ASSUMPTIONS**

1. Background

- 1.1 Councillors serving on scrutiny have an important role in regularly reviewing the council's finances. Key budget assumptions are made as part of the budget setting process, they set out the estimated expenses or financial expectations for the next three years. Regularly reviewing these assumptions is important to keep the councils finances and predicted forecasts on track.

2. Focus for Scrutiny

- 2.1 What were the key assumptions in January 2023 for the 2023/24 budget?
- 2.2 Where are these key assumptions now, in November 2023, in relation to the 2023/24 budget?
- 2.3 What has changed with the key assumptions and why?
- 2.4 What is it that underpins these key assumptions?

3. Document(s) Attached

- 3.1 Appendix 1 - sets out the key cost assumptions for 2024/25 and current expectations as to their continuing validity and the associated impact.
- 3.2 Appendix 2 - sets out the key funding assumptions for 2024/25 and current expectations as to their continuing validity and the associated impact.

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Scrutiny Report

ISLE OF WIGHT COUNCIL

Meeting	CORPORATE SCRUTINY COMMITTEE
Date	7 NOVEMBER 2023
Title	BUDGET SCRUTINY - KEY ASSUMPTIONS UNDERPINNING THE BUDGET FORECAST FOR 2024/25
Report of	DIRECTOR OF FINANCE

1. Executive Summary

1.1 The report and appendices set out the following:

- The key spending and funding assumptions underpinning the Council's forecast budget deficit of £6m (+/-£5m due to uncertainty) made in February 2023 which in turn requires the Council to make savings of at least £2m p.a. for the next 3 years.
- The key spending and funding assumptions underpinning the Council's forecast Budget for 2024/25
- The current expectation of both spending and funding assumptions and the likely impact of any changes to those assumptions affecting the Budget for 2024/25

2. Recommendation(s)

2.1 The Committee are invited to review and scrutinise the fundamental key cost and funding assumptions built into the 2024/25 Budget Forecast in order to satisfy themselves of the robustness of the overall financial position of the Council in the lead up to the Budget and Council Tax Setting Meeting for February 2024

3. Background

3.1 In February 2023 a new medium-term forecast was completed to cover the period 2024/25 to 2026/27.

- 3.2 It was estimated that the savings required for the new 3 year period 2024/25 to 2026/27 will be £6.0m and noting that the "smoothing" and "spreading" of the future deficit over 3 years is only made possible by holding "headroom" in General Reserves above their minimum levels.
- 3.3 The Forecast Budget Deficit for the new 3 year period is £6.0m and is described in the paragraphs that follow.



- 3.4 The most significant assumptions in the medium-term future forecasts for the period 2024/25 to 2026/27 are described below:

Spending Assumptions:

- Cost and inflationary pressures in both Adult Social Care and Children's Services of £12.4m (including future uplifts to the National Living Wage in accordance with OBR Forecasts)
- Cost and inflationary pressures in all other Services of £10.8m covering all pay and prices (assuming pay awards, specific contract inflation and CPI/RPI increases in line with the forecasts from the OBR)
- Revenue Contributions to Capital re-commencing in 2024/25
- No further contributions to the Transformation Reserve
- An assumption of a steady state for all budgets.

Funding Assumptions:

- A net loss in Government funding, mainly arising from the Fair Funding Review and Business Rate Retention scheme of £1.0m, phased in from

2025/26 onwards (Note: the Business Rate "Reset" will remove £10m of growth which may not be fully re-distributed through the Fair Funding Review)

- No further increase in funding arising from the "Island Deal" (Note: £1m in total is built into the Budget for 2023/24 and ongoing)
- An overall increase in Council Tax Income of £12.5m which incorporates:
 - Increases of 4.99% per annum for 2024/25 (including 2% p.a for the Adult Social Care Precept) and falling to 2.99% increase per annum thereafter (including 1% p.a for the Adult Social Care Precept)
 - Increases in the Council Tax Base of 0.2% per annum for 2024/25 and 2025/26 and 0.1% thereafter
- No allowance for additional Council Tax income from empty properties and second homes which could arise from future legislation and amount to up to £5m from April 2024
- Indexation uplifts on retained Business Rates of 5.5% for 2024/25, 0.0% for 2025/26 and then minus 1.0% for 2026/27
- An underlying zero growth assumption for changes in Business Rates from 2024/25 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.

3.5 Future funding from Government from 2025/26 onwards is heavily dependent on the outcome of the Fair Funding Review and Business Rate Retention scheme review. It must be recognised that the outcome of these reviews remains uncertain.

3.6 It is also important to recognise that this forecast extends beyond the Fair Funding Review and the revised Business Rate Retention Scheme due to be implemented in 2025/26. It moves a year beyond these events and makes broad assumptions at the macroeconomic level pending any indicative information at the local level. Inflation assumptions are also potentially volatile and therefore there remains a significant level of uncertainty surrounding the £6.0m forecast deficit which could realistically vary between +/- £5m.

4. Appendices Attached

4.1 Appendix 1 - sets out the key cost assumptions for 2024/25 and current expectations as to their continuing validity and the associated impact.

4.2 Appendix 2 - sets out the key funding assumptions for 2024/25 and current expectations as to their continuing validity and the associated impact.

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