



## Committee report

Committee	<b>CABINET</b>
Date	<b>TUESDAY, 9 FEBRUARY 2010</b>
Title	<b>2010/11- 2012/13 BUDGET STRATEGY AND COUNCIL TAX SETTING</b>
Report of	<b>CABINET MEMBER FOR RESOURCES</b>

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### PURPOSE

1. This report outlines the Council's revenue and capital budget position covering the next three years. In particular it updates and rolls forward the Medium Term Financial Strategy (MTFS) and Medium-Term Financial Plan (MTFP) that was agreed at Council on 25 February 2009.
2. The Medium-Term Financial Plan for the Council sets out the projected resources from Revenue Support Grant, assumed levels of council tax, fees and charges and projected costs at current levels of activity plus inflation and known service changes.
3. The overall Medium-Term Financial Strategy sets out how the Council will resource the key projects, changes and improvements that flow from the Councils Corporate Plan, along with the redirection of resources over time to meet these priorities, whilst balancing the budget gap.
4. Specifically the report makes proposals for :-
  - a) The Medium-Term Financial Strategy for the next three years
  - b) The level of investment in service improvement and improved efficiency
  - c) The level of capital investment
  - d) The level of savings to be achieved
  - e) The level and timing of use of balances
  - f) The council tax base
  - g) The council tax levels for 2010/11
5. The Council at its meeting on 24 February will need to agree the overall revenue budget, capital programme and council tax level for 2010/11 and therefore Cabinet needs to recommend the appropriate levels for consideration by Council.

## BACKGROUND

6. The Council adopted a three year budget strategy (2008/9-2010/11) at its meeting on 20 February 2008 which was based on the key features set out below :-
  - A fixed three year Revenue Support Grant settlement 2008/9,2009/10,2010/11
  - Council tax increases in line with inflation as measured by RPI at September, which is the measure by which pension and benefits uplifts are made.
  - Investment to achieve the vision and aims and deliver improvements.
  - Savings of £12.37m over three years from efficiency and transformation.
  - Using balances of £10.2m over three years
7. The Strategy was refreshed for 2009/10 as agreed at Council on 25 February 2009 against a very challenging economic position that has meant:
  - A fall in overall income from fees and charges of over £2.5m per annum
  - A fall in the interest earned on balances and reserves of over £2m per annum
  - Additional service pressures of over £3.5m
  - Coping with the continued funding shortfall on the national concessionary fares scheme of some £3m.
  - The continued reduction in grant through damping of some £3.5m per annum
8. This report sets out the rolled forward position for 2010/11 and the proposed budget strategy for the next three years.

## STRATEGIC CONTEXT

9. The Council's refreshed Corporate Plan was agreed by Council at its meeting on 25 November 2009. It provides a framework for the delivery of our services. It is a clear statement of the Eco-Island vision, aims and priorities, and outlines the key outcomes and actions which will support the delivery of the Council's priorities.
10. The key priorities in the Corporate Plan provide the basis for the setting of the Council's budget to deliver the outcomes that will make a difference to the way services are delivered and improved for residents and visitors. The activities set out in the service plans to deliver the required outcomes are supported by service budgets.
11. The Medium –Term Financial Strategy for 2010/11-2012/13 to deliver the Corporate Plan is attached at Appendix 9.
12. The key priority of delivering better services in particular is dependent upon investing up front to deliver improved performance, value for money and efficiency savings. The Council needs to focus its resources on its declared priorities and partner agencies should also make their contribution to the investment in services to residents. However the Council will also seek to support and stimulate the local economy, wherever possible, through its policies
13. The Corporate Plan is also a key part of the authority's performance management framework and sets out how the authority's priorities are translated into action plans that will deliver outcomes for residents.

14. The key elements of the Medium-Term Budget Strategy are therefore to
- Direct resources to the seven key priorities and outcomes ( see Appendix 1):
    - Schools Reorganisation
    - Roads/Highways PFI
    - Transforming Social Care
    - Economic Development
    - Fire Service Modernisation
    - Local Housing
    - Delivering Better Services
  - Keep council tax increases to a minimum
  - Deliver significant savings through the transformation programme:
    - Better systems and processes
    - Smarter ways of working, less bureaucracy
    - Less buildings, less jobs, less costs
  - Increase income where appropriate
  - Stopping or reducing services:
    - Discretionary spend
    - Areas not core service delivery or priority
    - Higher cost / lower impact
    - What we don't have to do

## PROPOSALS

15. The Council's overall strategy is based on responsible financial management and use of reserves, the implementation of programmes of major change and a drive for a more efficient organisation. The overall thrust and direction of the Medium-Term Financial Strategy and consequent Budget Strategy for 2010/11 – 2012/13 therefore still remains the same.
16. Despite the major impact of the recession, the increased demand for services, coping with the funding shortfall on the National Concessionary fares scheme and the loss of Revenue Support Grant through "damping" the proposed budget for 2010/11 provides for significant investment in service priorities and the change agenda as well as a proposed council tax increase of 2.5%.
17. Action has been taken over the last two years in particular to minimise the impact of the recession by driving through efficiencies, commencing the implementation of the Business Systems Improvement Project, streamlining management, reviewing and reducing staffing levels, and developing our approach to transformation as agreed at Cabinet at its meeting on 17 November 2009.
18. Overall changes to the Budget for 2010/11 to 2012/13 are summarised in Appendix 2 with a summary of service budget changes from 2007/8 to 2009/10 set out in Appendix 12.

## Investment and Savings

19. The overall investment , spend and resource position can be summarised as:

	2009/10	2010/11	2011/12	2012/13
	£'000	£'000	£'000	£'000
Revenue Support Grant	59,130	61,397	61,397	61,397
Council Tax	68,959	71,067	73,298	75,506
General Fund Balances	3,900	0	0	0
<b>Net Revenue Budget</b>	<b>131,989</b>	<b>132,464</b>	<b>134,695</b>	<b>136,903</b>

20. Within this the following levels of additional Investment, efficiencies and savings are provided for:

	2010/11	2011/12	2012/13
<b>INVESTMENT FROM REVENUE, RESERVES AND CAPITAL PROGRAMME</b>	<b>£'000</b>	<b>£,000</b>	<b>£'000</b>
1. Key Service improvements			
• Highways PFI	2,000	1,800	1,400
• Schools reorganisation	500	500	500
• Fire Service Modernisation phase 1	420	420	420
2. Upfront investment to deliver an efficient organisation			
• Business Systems improvement	250	250	250
• Property rationalisation	1,360	2,950	1,230
• ICT	2,820	1,480	1,080
3. Capital investment in Services			
• Fire Service Modernisation	4,500	5,000	0
• Schools	33,700	31,400	6,200
• Leisure Facilities	2,000	4,600	1,000
• Housing	4,400	2,000	860
• Local Transport and Highways	6,500	4,300	4,300
• Crematorium	1,350	0	0
• ICS/ICT Infrastructure	800	250	260
<b>TOTAL</b>	<b>60,600</b>	<b>54,950</b>	<b>17,500</b>
<b>REVENUE SAVINGS</b>			
<b>Delivering Better Services</b>			
• Accommodation	-365	-315	-275
• Business processes	-1,185	-2,500	-1,875
• Procurement/consumables	-740	-900	-900
• Service redesign	<u>-1,210</u>	<u>-1,500</u>	<u>-1,000</u>
	<b>-3,500</b>	<b>-5,215</b>	<b>-4,050</b>
<b>Direct Service savings</b>			
• Increased income	-1,250		
• Reduced subsidies and grants	- 500		
• Review of service levels	-8,153		
<b>TOTAL SAVINGS REQUIRED</b>	<b>-13,403</b>	<b>-5,215</b>	<b>-4,050</b>

21. The detailed schedule of savings is set out in Appendix 4 together with brief explanations of what they involve.

### **Revenue Support Grant**

22. The Revenue Support Grant (RSG) Settlement was announced in February 2008 on a three year fixed basis for 2008/9, 2009/10 and 2010/11. The announcement this year has confirmed that for 2010/11 the figures have not changed at all. The detailed figures are set out in Appendix 5.
23. In overall terms it was a settlement which provided little additional resource to councils to cope with the additional responsibility placed upon them and gave little scope for growth. The position is made worse by the significant level of grant that is taken away through “damping”. For the IOW this is a substantial £11.656m over the three year period. This represents resources that are rightly due to the Island based on the need to provide services as reflected in the government’s formulae.
24. To protect those councils with reductions or very low increases the government introduced a “floor” whereby most council’s were guaranteed at least a 2% increase. The extra cost was paid for by introducing a “ceiling” whereby those councils with the largest increases had their grant reduced, this is the process known as damping. As the Isle of Wight Council (due to its assessed need) is above the ceiling then it suffers the damping loss.
25. Under the national concessionary fares scheme the government applied general formulae to distribute grant for concessionary fares both within the RSG and as a special grant for 2009/10. Neither amount relates to the need to spend or the concessionary fares usage.
26. The funding gap has been of the order of £3m but for next year the additional grant received will increase by £890,000.

### **Medium-Term Financial Plan**

27. The Medium-Term Financial Plan (MTFP) summarised in Appendix 2 sets out the projected resources and the projected costs of services over the next three years. It includes a range of assumptions about inflation and service pressures. The key assumptions are set out in Appendix 7.
28. Although the Council can only set its budget and council tax for 2010/11 at this stage it needs to do this in the context of the future position. A consistent deliverable strategy for meeting the council’s agreed priorities, council tax levels, investment and savings can only be achieved through medium-term planning as set out in the Medium-Term Financial Strategy.
29. From 2011/12 a new three year RSG settlement will be implemented which is likely to mean much reduced funding levels for public services. In addition other government funding through the Area Based Grant (ABG) and ring-fenced grants are likely to be reduced. At this stage It has been assumed that the RSG and ABG will be at the same level in 2011/12 and the following two years as in 2010/11. It could be far worse than this with for example a 5% reduction in RSG and a 20% reduction in ABG meaning a further reduction in resources of £5.7m on top of the projected budget gap of £3.45m in that year.

30. Essentially the strategic budget choices facing the Council relate to a balancing act between a number of factors:

- Redirecting resources to new priorities
- Meeting statutory duties and increased need
- Service improvement and growth
- Capital investment

and meeting the resource gap through:

- Council tax increases
- Savings, efficiencies and reductions
- Increase in fees and charges
- Use of reserves

31. It also needs to consider the relative impact of these on residents, council taxpayers, service users, business, voluntary sector and on the outcomes it is trying to achieve through the Vision. An equalities impact assessment has also been completed and a summary is set out in Appendix 6.

### **Capital Programme**

32. The level of capital investment is dependent upon the resources available. These are essentially direct grant and support for specific schemes from government and other parties, capital receipts from disposal of assets, prudential borrowing and revenue contributions.

33. The ability to undertake prudential borrowing is dependent on the affordability of the revenue cost of the repayment and interest costs.

34. Whatever the resources available, however, the overall programme needs to directly reflect and support :-

- i. The Council's vision and strategic objectives as set out in the Corporate Plan
- ii. The capital strategy that will help deliver them
- iii. The relationship to the revenue budget strategy and Medium-Term Financial Plan.

35. In the light of the stated priorities of the Council, the overall resources position and deliverability, a review of the overall Capital Programme has been undertaken.

36. Schemes have been reviewed and included on the basis of the following classification:

- a) Children's services/schools – projects to be met from specific funding allocations
- b) Local transport and other capital projects with specific allocations/grants
- c) Committed schemes within the already approved capital programme.
- d) Essential unavoidable projects and costs
- e) Key projects directly related to the Council's seven key priorities
- f) Projects such as transformation where the borrowing costs can be met from savings or additional sources of income.

37. The capital schemes have then been subject to a challenge process with regard to contract timescales and capacity to deliver and profiled over the next three years.
38. The recommended revised programme (excluding schools and transformation) is summarised in Appendix 8.
39. The overall position on Capital resources and investment would then be:-

	2010/11	2011/12	2012/13	Total
	£'000	£,000	£'000	£'000
<b>Non-Schools Programme Resources</b>				
Local Transport Programme	4,397	4,296	4,296	12,989
Other supported borrowing	148	0	0	148
Prudential borrowing *	14,293	11,960	2,523	28,776
Grants/contributions	4,284	520	516	5,320
Capital Receipts	1,900	1,900	1,000	4,800
Leasing budgets	596	95	233	924
<b>TOTAL</b>	<b>25,618</b>	<b>18,771</b>	<b>8,568</b>	<b>52,957</b>
<b>Transformation Capital costs financed from Prudential borrowing where revenue impact met from savings</b>	<b>4,550</b>	<b>3,798</b>	<b>1,752</b>	<b>10,100</b>
<b>Resourced Schools Programme subject to re-profiling and change through BSF</b>	<b>33,682</b>	<b>31,430</b>	<b>6,215</b>	<b>71,327</b>
<b>Total Programme</b>	<b>63,850</b>	<b>53,999</b>	<b>16,535</b>	<b>134,384</b>
<b>Actual spend target to be assessed through challenge process</b>				
<b>There may be additional Spend as a result of invest to save and vehicle replacements where revenue costs met through contracts.</b>				

40. The spending performance on the capital programme, although it has improved, continues to be problematic in that we over estimate what can be achieved in the year, do not project manage effectively enough and adopt a programme that we have not got the capacity or resource to deliver.
41. For every scheme and allocation a robust challenge and project review is being undertaken to determine the overall project plan, the logistics of achieving the project, the profiling of spend the risk management and the outcomes to be achieved.
42. This will result in the proposed programme being more effectively profiled over the next three years to more realistically assess likely actual spend levels.

43. We need to demonstrate that the level of prudential borrowing is affordable and in line with prudential indicators set out in the statutory guidance. These are set out in Appendix 14 together with the overall treasury management strategy.
44. Capital receipts disposals have been based on a programme of identified sites and their potential proceeds as reported previously. The ability to generate additional capital receipts will continue to be reviewed as part of the overall property rationalisation and Strategic Asset Management Strategy.

### **Council Tax**

45. The strategy has been and continues to be to keep council tax increases to as low as practicable. Over the last few years council tax increases have been less than inflation as measured by the Retail Price Index (RPI) at September each year. For 2008/9 this RPI increase was 3.9% and council tax was set at this level. For 2009/10 the comparable figure was 5%. However since then the annual inflation as measured by the RPI has dropped significantly. The inflation suffered by the Council will be higher than this as a result of pay awards and contract costs and it does not reflect additional costs for increased service responsibilities or the true impact of the national concessionary fares scheme.
46. In striking a reasonable balance between council tax increases, making further savings and reductions and increasing fees and charges, and in line with the results of the budget consultation a 3.5% increase was set for 2009/10 with provisional increases of 2.5% set for future years. The government has indicated that for 2010/11 they are likely to cap increases of over 3% and have written to all councils urging increases to be lower than this.
47. In accordance with the medium-term strategy it is proposed to maintain the increase at the 2.5% level. This also recognises that significant savings have to be made to get down to this level.
48. The formal council tax resolution will be reported to Council along with the final precept figures. At 2.5% a band D property would be £1,289.80p for the IOW element of council tax an increase of £31.46p or 60.5 pence per week. The other bands are illustrated in Appendix 15. On top of this would be the police precept and parish precepts.
49. The council tax base for 2010/11 has been calculated at £55,167 based on the number of band D equivalents and an assumed collection rate of 99%.

### **Savings and redirection**

50. To balance the budget and direct resources that we have to delivering the Corporate Plan priorities a number of efficiency savings and redirection of resources are being proposed. These are set out in Appendix 4.
51. The strategy is aimed at concentrating savings on efficiencies and transformation. These savings require a planned approach and will only be realised over time after investment in new systems, service redesign and flexible working etc.
52. Ultimately in reducing costs and becoming an efficient organisation there will need to be a reduction in posts and people employed and a substantial reduction in the properties we use.



53. Taking into account the proposals in this report and the implementation of BSIP, transformation etc, it is thought that some 200- 300 posts will need to be shed, spread over the next three years. Some of these posts are already vacant and a range of HR processes will be followed to mitigate against compulsory redundancy e.g. targeted voluntary redundancy; flexible working patterns; early retirements; redeployment; reduction in use of temporary staff.
54. Any one-off redundancy costs and/or retirement costs will need to be met from savings or initially from reserves and then future savings.

### **Increase in fees and charges**

55. Income from fees and charges for Council services is normally assumed to rise by inflation year on year. Fees and charges for all Council services are subject to such an inflation factor except where specific circumstances dictate otherwise. For example, certain fees and charges are set by statute and the Council is obliged to use those statutory fees when charging for those services. Planning fees for instance have already been frozen at existing levels for next year by the government. With regard to locally set fees and charges, the Council may choose to levy more, or less, than the assumed rate of inflation for particular categories of income in any given financial year.
56. As part of the overall strategy last year and recognising the impact of the recession no general increase in charges were made for 2009/10.
57. Bearing in mind the very constrained resources available to the Council, the budget consultation feedback and the need to make significant savings it is proposed that a number of increased charges are made where it is appropriate to do so.

### **Use of Reserves**

58. The agreed strategy over the three years 2008/9 – 2010/11 was to use £10.2m of general fund balances of which £1.3m would be used next year. Originally it was projected that there would be £6.3m available at 1 April 2010 which after the £1.3m use in 2010/11 would leave the minimum required of £5m of general fund balances available at 1 April 2011.
59. Assuming no overall overspend in the current financial year would leave £7.6m of general fund balances at 1 April 2010. However the reports to Cabinet on the budget monitoring position for 2009/10 indicate a number of pressures with an overall potential overspend of some £3m or more.
60. Although concerted action has and is being taken to avoid this it would be unwise to use further balances within the budget strategy for next year and therefore none is recommended.
61. A summary of the reserves position is set out in Appendix 10 with a risk assessment set out in Appendix 11.
62. The summary of the overall cash limits for 2010/11 incorporating all the proposals in the report is set out in Appendix 3.

## **Conclusion**

63. The Council is facing a very challenging financial position made significantly worse by grant loss through “damping”, the significant impact of the recession and the under funding of the national concessionary fares scheme.
64. In addition the potential resources position for future years from 2011/12 when a new three year RSG settlement is implemented is likely to be even more severe. The Council has, therefore to plan on the basis of ever reducing funding for the foreseeable future.
65. Because the Council adopted a three year strategy based on responsible financial management and appropriate use of reserves, the implementation of programmes of major change and a drive for a more efficient organisation the overall budget strategy for 2010/11 – 2012/13 still remains the same.
66. The proposed strategy strikes a balance between, the need to invest in capital infrastructure to improve services and direct resources to the vision and priorities and the level of council tax increase, levels of fees and charges, level of savings and service reductions and use of any available balances.

## **CONSULTATION**

67. A budget consultation exercise is undertaken each year which has included an overall Questionnaire placed in the One Island magazine and holding focus groups with the voluntary sector, business, youth, older people and staff. Previous resident’s surveys have also informed priorities.
68. For the 2010/11 Budget a combination of measures have been used :
  - Budget consultation questions were combined with a telephone residents’ survey
  - A budget simulator online model to gain more detailed feedback on priorities
  - A universal workshop was held in December
69. The results of all these measures have been analysed and fed into the budget process to influence decisions on resource allocation. A summary is attached at Appendix13
70. As part of the Council’s improvement agenda, regular financial management reports are also taken to the Overview and Scrutiny Committee to provide up to date information and to allow an element of independent challenge and feedback to the Cabinet.
71. The report to Cabinet on 17 November on the initial Medium Term Financial Strategy and budget strategy 2010/11- 2012/13 and a presentation on the overall budget strategy went to the Overview and Scrutiny Committee at its meeting on Thursday, 10 December 2009 .This was followed by a more detailed consideration of this report at a meeting on 1 February 2010.
72. The Overview and Scrutiny comments to be referred to Cabinet from their latest meeting will be made available.

## FINANCIAL / BUDGET IMPLICATIONS

73. This report is entirely about the overall financial and budgetary position of the Council and sets out the financial and budget considerations in developing a proposed Medium-Term Financial Strategy for the Council and consequent implications for council tax, investment and savings.

## LEGAL IMPLICATIONS

74. The Council needs to set a balanced budget and council tax levels for 2010/11. In doing this it needs to ensure that it meets its statutory duties in relation to provision of services and in any change it introduces. The government have indicated that council tax rises above 3% may be capped. Members should have regard to the statutory duties placed upon the Strategic Director of Resources as Chief Financial Officer. The Council may take decisions which are at variance with his advice, providing there are reasonable grounds to do so. However, members may expose themselves to risk if they disregard clearly expressed advice, for example as to the level of provision required for contingencies, bad debts and future liabilities.

## EQUALITY AND DIVERSITY

75. The overall strategy attempts to balance the needs of service users, residents, Council taxpayers, business, voluntary sector and on the outcomes it is trying to achieve through the corporate plan.
76. The investment in services and savings proposals will directly affect different groups of people. Some impact will be felt universally but other proposals will impact differently on older people, young people and vulnerable adults. As part of the budget process an equalities impact assessment has been undertaken and a summary is attached at Appendix 6.

## OPTIONS

77. There are a number of options open to the Council in relation to the strategic choices it has particularly in the level of Investment, the level of capital investment, council tax increase, savings etc. The report highlights these choices and proposes an overall strategy to balance them.

## RISK MANAGEMENT

78. The key risks of this strategy relate to budget pressures being even higher than anticipated; savings and efficiencies not being achieved; proposed income levels not being achieved, inflation higher than expected. These risks are contained in the strategic risk register. The risk assessment set out in Appendix 11 matches the potential financial risks to reserves available to meet them.
79. General Fund balances of at least £5m will be maintained on top of earmarked reserves. Savings implementation plans will be adopted and rigorously monitored and budgetary control and reporting will be further strengthened. If savings from efficiencies and transformation are not achieved to the levels required then commensurate reductions will need to be made.

## RECOMMENDATIONS

### 80. THAT Cabinet

1. Consider the views and comments from the Overview and Scrutiny Committee from its meeting on 1<sup>st</sup> February.
2. Consider the results of the Budget Consultation exercises set out in Appendix 13.
3. Consider the Equality Impact Assessment set out in Appendix 6.
4. Then recommend to Council the overall Budget and Council Tax Strategy and in particular:-
  - (a) The Medium Term Financial Strategy set out in Appendix 9.
  - (b) The Medium-Term Financial Plan as set out in Appendix 2.
  - (c) No use of general fund balances to be applied for 2010/11 budget.
  - (d) The schedule of savings set out in Appendix 4.
  - (e) An increase in the IOW Council element of Council Tax by 2.5% for 2010/11.
  - (f) The overall Capital Programme set out in Appendix 8.
  - (g) The Prudential Code Indicators, Treasury Management Strategy and Investment Strategy as set out in Appendix 14.
  - (h) The overall Council tax base of £55,167 for 2010/11.

## APPENDICES ATTACHED

- [APPENDIX 1](#) - Seven Key Priorities summary
- [APPENDIX 2](#) - Medium-Term Financial Plan 2010/11- 2012/13
- [APPENDIX 3](#) - 2010/11 Budget – Cash Limits - Summary
- [APPENDIX 4](#) - Schedule of savings – increases in income 2010/11
- [APPENDIX 5](#) - Revenue Support Grant Settlement
- [APPENDIX 6](#) - Equalities Impact Assessment
- [APPENDIX 7](#) - MTFP 2010/11 to 2012/13 Inflation Assumptions
- [APPENDIX 8](#) - Capital Programme Summary
- [APPENDIX 9](#) - Medium-Term Financial Strategy
- [APPENDIX 10](#) - Reserves and Balances Analysis
- [APPENDIX 11](#) - Risk Assessment
- [APPENDIX 12](#) - Service Budget changes 2007/8 – 2009/10
- [APPENDIX 13](#) - Budget Consultation results
- [APPENDIX 14](#) - Prudential Borrowing Indicators and Treasury Management Strategy
- [APPENDIX 15](#) - Council Tax – Property Bandings

## BACKGROUND PAPERS

- Local Government Finance Settlement 2008/9- 2010/11
- Presentation to Overview and Scrutiny Committee 10 December 2009
- Medium-Term Financial Strategy and Budget Strategy report to Cabinet 17 November 2009

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