



## Committee report

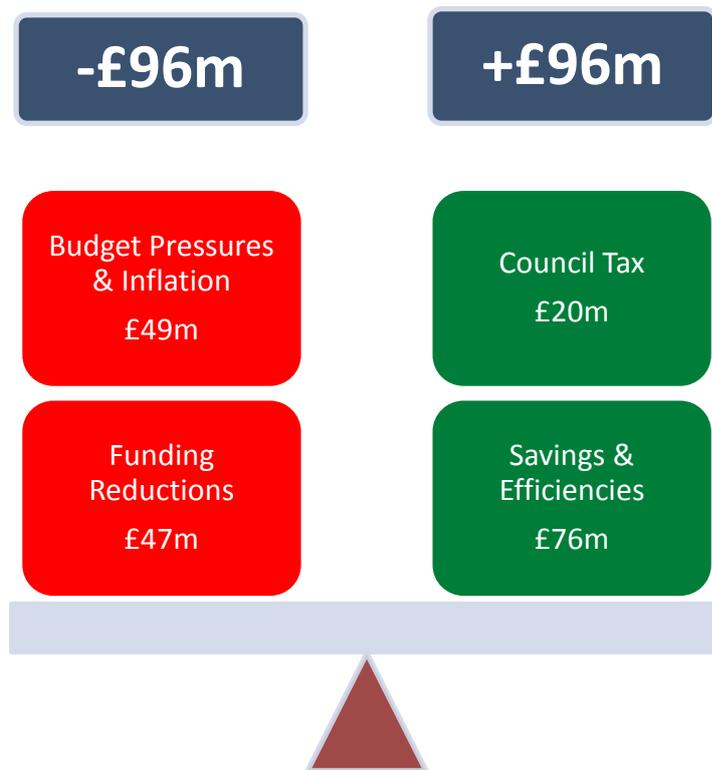
Committee	<b>CABINET</b>
Date	<b>8 NOVEMBER 2018</b>
Title	<b>BUDGET SAVINGS 2019/20 - INITIAL SAVINGS PROPOSALS</b>
Report to	<b>THE LEADER OF THE COUNCIL, THE DEPUTY LEADER OF THE COUNCIL AND CABINET MEMBER FOR RESOURCES.</b>

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### EXECUTIVE SUMMARY

1. In February 2018, the Council resolved to set a Savings Requirement of £5.5m for 2019/20 as the first tranche of savings towards an overall forecast Budget Deficit of £16.5m to be found over the 3 year period 2019/20 to 2021/22. For each of the years 2020/21 and 2021/22 two further tranches of £5.5m are also forecast, which all combined, meet the £16.5m requirement.
2. The cause of the £16.5m forecast Budget Deficit has been driven by the combined effect of reductions in Central Government Funding, relatively low increases in Council Tax and unavoidable cost increases (particularly associated with Adult and Children's Social Care).
3. Some mitigation has been provided by the Business Rate Retention Scheme (BRRS), allowing the Council to retain 50% of all proceeds of business rate growth, however this is small, currently amounting to circa £3m per annum compared with reductions in funding currently amounting to £47m per annum and increased cost pressures at £49m per annum compared with 2011/12.
4. As set out below, the Council has been required to make £76m in savings and efficiencies over the past 8 years in order to balance the Budget, ensuring that spending remains in line with income and funding levels. Savings of this magnitude have presented the Council with the largest budget deficits that have been experienced in modern times.

## BALANCING THE BUDGET - 2011/12 TO 2018/19



5. The Administration has sought to take a responsible and proactive approach to the financial challenge facing the Council, recognising that financial stability and resilience is fundamental to the sustainable delivery of Council services. Over the past 2 years, the Administration have:
- Developed budget proposals which have delivered savings (both additional income / funding and reduced costs) amounting to £15m
  - Achieved savings against the approved budget for 2 successive years, amounting to £11m in total
  - Improved the financial resilience of the Council by increasing the level of general reserves from a level just above the minimum (£5m) to £11.2m, allowing the Council to take a much more balanced approach to risk
  - Created a Transformation Fund of £4m to provide the necessary funding for Spend to Save and Invest to Save schemes
  - Made significant additional contributions to the Capital Programme of £10m aimed at improving the Island economy and regeneration more generally

6. Budget deficits of the scale described, both past and into the future, and the need to make corresponding savings creates a real and substantial risk to the sustainability of public services to residents and businesses. It is vital that the Council continues to pursue its Medium Term Financial Strategy (MTFS) and 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.
7. The overall aim of the MTFS is 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*

8. The Medium Term Financial Strategy has been designed to:
  - Effectively manage and "smooth out" the required savings enabling the Council to maximise its operational capacity to implement initiatives at pace which are aimed at increasing income / funding and reducing costs
  - Improve the overall financial resilience of the Council, seeking to rebuild General Reserves over the medium term in order to guard against "financial shocks" or avoidable "spikes" in savings required in any one year and also have the ability to respond to financial opportunities which can bring funding to the Island
  - Minimise Service Reductions through measures to:
    - Engage in Entrepreneurial, Commercial and Collaborative Activities (to generate both capacity and income for the Council)
    - Improve efficiency (to reduce costs with minimal impact on service delivery)
    - Improve the Island Economy (to improve prosperity generally as well as increasing the Council's funding base)
    - Transform Public Services (to improve the service users experience and remove duplication and therefore cost)
  - Ensure that funding is available to enable, or "pump prime" Spend to Save (Revenue) and Invest to Save (Capital) schemes

- Maximise the Capital Resources available to the Council; recognising that the targeted use of the Capital Programme can stimulate economic regeneration, jobs and housing with consequent positive effects on Council funding as well as reduced costs
9. The implications from the Autumn Budget are not generally expected to materially alter the Council's forecast Budget Deficit of £16.5m unless the announcements relating to Adults and Children's Social Care of £650m nationally, but announced for 2019/20 only, are confirmed to continue into future years. Other factors such as inflation generally, the living longer population and the increase in the National Living Wage (4.9%), all of which are on-going, may impact on the Council's forecasts for future years beyond 2019/20.
10. Other variables that form part of the Council's overall financial forecasts for the next 3 years remain uncertain such as:
- The outcome of the Government's Fair Funding Review and the impact of Business Rate "Resets" (both of which form part of the overall review of Government funding to Councils)
  - Inflation and interest rates
  - The amount of retained Business Rates that will be achievable
  - The amount of Council Tax that will be received.
11. Importantly, the Council's Savings requirement for 2019/20 of £5.5m is predicated on a Council Tax increase that broadly aligns with the level of inflation that the Council is expected to experience. At present the Government have consulted on a maximum increase of 3.0%, representing an inflation based level.
12. At this stage, pending a comprehensive revision of the Council's medium term financial forecasts in February 2019, it remains prudent to plan for a minimum savings requirement for 2019/20 of £5.5m. However, as a consequence of the consultations and variables described above, future years' savings forecasts for 2020/21 and beyond may change from the £5.5m per annum currently forecast.
13. An initial set of savings proposals amounting to £5.5m have been developed by the Administration in accordance with the Medium Term Financial Strategy and are attached at Appendix 1. These are being published at this stage to provide all members, residents, business and other stakeholders with sufficient time to consider and make any responses either through the forthcoming budget consultation, directly to the Council or through their local councillors or other representative groups.
14. The initial savings proposals will be considered alongside the results from the Budget Consultation exercise due to commence later in November 2019 and all other responses before being finally proposed to the Council for approval at the Annual Budget meeting in February 2019. The £5.5m initial savings proposals for 2019/20 are summarised as follows:
- (i) Savings analysis:

Description of Saving	Savings	
Efficiency Savings (little or no reduction in Services)	£3.3m	60%
Additional Income	£1.9m	34%
Service Reduction	£0.3m	5%
<b>Total</b>	<b>£5.5m</b>	<b>100%</b>

- (ii) The initial proposed savings reflect the Council's MTFs which is designed to, as far as possible, avoid cuts in services and focus strongly on income generation and efficiencies as an alternative. For 2019/20, Efficiency Savings account for 60% of the proposed savings, with 34% relating to Additional Income and just 5% being Service Reduction measures.
  - (iii) Significant efficiency savings are planned for Infrastructure & Transport relating to the Highways PFI scheme enabling savings of 6.8% against their controllable spending power compared with the average savings level of 3.5% across the Council. Additionally, the Resources Portfolio continues to deliver significantly greater savings at 4.5% driven by the continuing success of commercial property investments and savings in corporate taxation.
  - (iv) The initial savings proposals also provide significant protection from savings for the Council's essential care services. Children's Services initial savings proposals amount to 2.3% and Adult Social Care are also less than the average at 3.1% (note that Adult Social Care have also been provided with an additional £1.6m for demographic budget pressures).
15. The initial savings proposals within this report will support the delivery of the Council's financial health and resilience and its ability to respond in a measured and proportionate way to any "financial shocks" as well as having sufficient financial capacity to exploit opportunities as they arise.
16. These initial proposals form a necessary part of the preparation to the overall Budget and Council Tax Setting report and recommendations to be considered at the meeting of the Annual Budget and Council Tax Setting meeting on 27<sup>th</sup> February 2019. That report will also include a comprehensive revision of the Council's future financial forecasts and set the consequent future savings requirements for the period 2020/21 to 2022/23.

## **Background**

17. The report describes the financial challenge facing the Council for the three years 2019/20 to 2021/22 and the likely implications for Council services to businesses and residents. It also describes, in overall terms, the way in which the Administration will seek to address this challenge through its Medium Term Financial Strategy.
18. The report sets out the need to find £16.5m of savings over the next three years with a minimum of £5.5m to be made in 2019/20 (assuming an increase in Council Tax in line with the prevailing level of inflation). It provides an initial set of savings proposals to be made across Portfolios consistent with the overall financial strategy. Appendix 1 describes those initial savings proposals in detail and their implications.
19. Finally, the report stresses the important contribution that the Transformation Reserve and the Capital Programme can make to the Council's overall Medium Term Financial Strategy stressing that the sustainability of Council Services will be better protected if both Transformation funds and the Capital Programme are directed towards generating savings or raising funding / income.

20. In particular, this report explains:

- (a) In broad terms the challenge for the Council in the current economic climate
- (b) The general financial constraints on the Council both currently and in future years
- (c) The Council's Medium Term Financial Strategy
- (d) Key assumptions built into the Council's forecasts for 2019/20 to 2021/22 which give rise to a forecast £16.5m deficit over the period and which include:
  - i) Revenue Support Grant
  - ii) Other Non-ring fenced grants
  - iii) Business Rates
  - iv) Council Tax yield
  - v) Future costs, including inflation
- (e) The level of uncertainty surrounding future years funding sources from Council Tax, Business Rates and Government Grant and the extent to which this could affect the forecast £16.5m deficit over the period
- (f) The Medium Term Financial Strategy aimed at meeting the Council's core aim whilst addressing the forecast £16.5m deficit
- (g) In the context of the Medium Term Financial Strategy, the initial savings amounts proposed for each Portfolio in 2019/20
- (h) The detailed initial savings proposals (Appendix 1) that could be made by each Portfolio in meeting its overall savings amount
- (i) How the initial savings proposals contained within this report will be considered alongside the results from the Budget Consultation exercise due to commence later in November 2019 and all other responses

### **Economic & Financial Context**

21. Whilst the picture for the national public finances is improving with lower than forecast levels of total debt and overall debt as a proportion of Gross Domestic Product falling, it remains to be seen whether this will filter through into additional funding for local Councils for both day to day revenue spending and capital investment.

22. The key announcements from the Autumn Budget for Local Government are summarised below:

- £240m of additional Adult Social Care funding for 2018/19 to support Winter Pressures
- £240m continuation of the Adult Social Care (Winter Pressures) funding into 2019/20
- £410m for Adults and Children's Social Care in 2019/20 and states "*..... to ensure that adult social care pressures do not create additional demand on the NHS. Local councils can also use it to improve their social care offer for older people, people with disabilities and children*"

- £55m of additional funding for Disabilities Facilities Grant in 2018/19;
- £420m in 2018/19 to tackle pot holes and other minor road highways works;
- £400m of in-year capital funding allocations to schools in 2018/19 to spend on equipment and facilities;
- An additional £84m of Children's Services funding over 5 years to help more children stay at home safely with their families, but across only 20 councils;
- For two years up until the next Revaluation in 2021 all retail premises with a Rateable Value below £51,000 will have their bills reduced by one third (expected to benefit 90% of retail properties);
- Introduction of 100% business rate relief for public lavatories;
- £675m to be provided across the period to 2023/24 through a new "High Streets Fund" to assist with rejuvenation of High Streets and, in particular, changing unused business and commercial property into residential accommodation;
- Additional funding for the Housing Infrastructure Fund of £500m will be provided, taking the total fund to £5.5bn;
- The government will abolish the future use of PFI and PF2, saying there is compelling evidence that it does not deliver value for taxpayers or genuinely transfer risk to the private sector.

23. The implications from the Autumn Budget are not generally expected to materially alter the Council's expected revenue funding from Central Government over the medium term, upon which the Council's forecasts are based. However, the announcement related to Adults and Children's Social Care of £650m nationally, but announced for 2019/20 only, will help to alleviate the existing and emerging financial pressures in those areas in the short term but unless confirmed into future years will not have any impact on future budget deficits. Other factors such as inflation generally, the living longer population and the increase in the National Living Wage (4.9%), all of which are on-going, may impact on the Council's forecasts for future years beyond 2019/20.

24. A Comprehensive Spending Review is planned for the Autumn 2019 and this will set the overall envelope for the Public Sector, and alongside the Local Government Finance Settlement for 2020/21, will provide much more certainty for Council funding over the subsequent 4 year period.

### **Funding Outlook - 2019/20 to 2021/22**

#### Government Funding 2019/20 to 2021/22

25. Government funding has reduced by £47m since 2011/12 and is expected to reduce by a further £6.1m over the forthcoming 3 year period.

26. There is a good degree of certainty of Government Funding for the next financial year, being a further reduction of £4.8m which was announced as part of the 4 Year Settlement that the Council has entered into but which ends in 2019/20. However, from 2020/21, a new formula funding methodology will be in place, this is currently

under consultation and is known as the "Fair Funding Review". It seeks to fundamentally review the methodology (or formula) for allocating funding as well as the underlying data used to populate the methodology. The overall forecast reduction in Government funding of £6.1m therefore is particularly uncertain.

27. Whilst funding from Government 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, any new unfunded burdens passed down from Government plus any changes in regulations.

#### Council Tax 2019/20 to 2021/22

28. Council Tax currently represents 52% of the Council's overall funding base with annual rises limited by "referendum thresholds"<sup>1</sup> which are set by Government annually. Over the past 8 years, Council Tax increases have not been sufficient to keep pace with the levels of inflation and other cost pressures experienced by the Council. Council Tax income has risen by £20m over the period since 2011/12 with inflation and other costs rising by almost two and a half times that amount at £49m.
29. The Council's financial forecasts (which derive a budget deficit of £16.5m over the next 3 years) assume that future Council Tax rises will be broadly in line with the level of inflation that the Council is expected to experience. At present the Government have consulted on a maximum increase for 2019/20 of 3.0%, representing inflation based level and it will be necessary to tax at that level in order to maintain a savings requirement for 2019/20 at £5.5m.
30. Should the Council choose to levy a Council Tax increase below an inflation based level which has been used in the forecast of the overall £16.5m deficit, every 1% reduction will increase the deficit by £822,900 and require corresponding additional savings to be achieved.
31. Additionally, Local Authorities were given the flexibility to raise Council Tax specifically to provide support for Adult Social Care Services. This is known as the Adult Social Care (ASC) precept; level of Council Tax increase for this purpose is determined by Central Government. This was set at 6.0% in total for a 3 year period up to and including the forthcoming financial (2019/20). The Council has already reached the 6.0% threshold and therefore is unable to increase Council Tax any further for this purpose.

#### Business Rates 2019/20 to 2021/22

32. 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 involves retaining 50% of all Business Rates generated in the area but which is subject to variables such as:
- Growth or reductions in the business rate base (i.e. number and size of business in the local area)
  - The value of successful appeals
  - The number of mandatory reliefs (e.g. charitable relief)
  - The overall collection rate (i.e. how much is uncollectable and written off)

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<sup>1</sup> The level of Council Tax increase beyond which a yes vote in a referendum is required

33. The Council has benefited from the national Business Rate Retention Scheme from 2013/14 to 2017/18 by £3m per annum and now from being a 100% Business Rate Retention Pilot for 2018/19 of a further £2m although this latter £2m is only guaranteed for 2018/19.
34. As part of the comprehensive review of the Local Government funding system (i.e. the Fair Funding Review), there will also be a "Reset" of the Business Rates Baseline in 2020/21. This means that any growth in Business Rates currently being enjoyed by the Council (£3m per annum and a further £2m guaranteed for 2018/19 only) could be lost.

#### Funding Summary - 2019/20 to 2021/22

35. In summary, the forecast funding for the Council from Central Government Grants is predictable for 2019/20 but not for the further 2 years due to the uncertain outcome of the Fair Funding Review. Council Tax income is predictable with a reasonable degree of accuracy but Business Rate income is not. Significant uncertainty exists not just in relation to the business rate growth / decline generally and the extent of reliefs and appeals but more significantly the impact of the Business Rate "Reset". Taken together, the overall funding position over the next 3 years is particularly uncertain which makes prudent financial planning absolutely vital.

#### Expenditure Outlook - 2019/20 to 2021/22

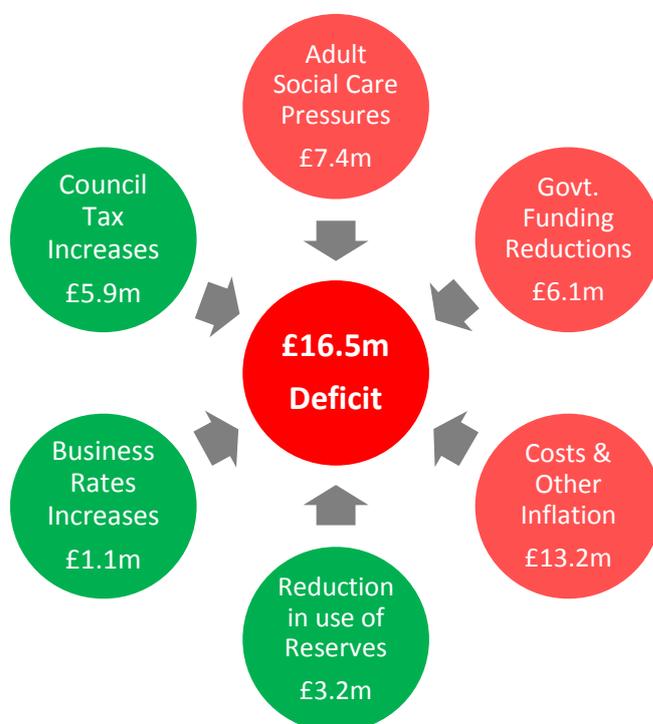
36. Over the past 8 years, costs have risen substantially. The combination of inflation plus unavoidable cost pressures, particularly in Adults and Children's Social Care, have added an overall cost burden of £49m over the period
37. The cost of providing services continues to rise and at a level beyond the rate of inflation. In general, the cost of providing Services are driven by the following:
  - i) Pay and price inflation which will include the increasing cost of the National Living Wage, general price increases and increases in interest rates
  - ii) Increases in demand for services, largely driven by social, economic and demographic pressures such as availability and affordability of housing, employment levels and the living longer population and the consequences for Adult Social Care

Inflation as measured by the Consumer Price Index is currently running at 2.4% and for the Retail Price Index 3.3%.

38. The overall outlook therefore for the Council's future costs is likely to exceed inflation related increases only due to additional demographic pressures. However, as previously explained, funding levels are constrained and unable to match the rate at which costs rise. This is because Council Tax is effectively capped at 3%, Business Rates increase in line with CPI (currently 2.4%) but Government funding, representing 21% of the overall funding base, is actually falling.

## Overall Budget Forecast - Funding & Spending 2019/20 to 2021/22

39. Taking both funding and spending together, the medium term forecast for the next 3 years indicates an overall budget deficit and therefore savings requirement of £16.5m as summarised below:



40. It is important to recognise that this forecast extends beyond the current Comprehensive Spending Review and 4 Year Settlement period and moves two years beyond the comprehensive change to the Local Government funding system which involves the Business Rate "Reset" and the simultaneous implementation of the Fair Funding review. Consequently, there remains a significant level of uncertainty surrounding the forecast for 2020/21 and 2021/22, exposing the vital need for prudent and responsible financial planning.
41. The forecast deficit of £16.5m was reported to the Council in February 2018 where it was recommended that the savings profile over the next 3 years should be equally phased (as set out below) with the aim of both providing a level of stability for financial and service planning but also to accord with the principle of starting to restore the Council's General Reserves over time.

## **£16.5m Deficit - Next 3 Years**

<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
<b>£5.5m</b>	<b>£5.5m</b>	<b>£5.5m</b>

42. The Council is aware of a number of potential changes to the assumptions underpinning the current forecast and will also be undertaking the usual review of the estimates of Council Tax and Business Rates income in early January 2019, this means that a comprehensive revision at this stage would be premature and subject to potential significant change.
43. Whilst it is possible that the overall financial forecasts will change, the savings requirement for 2019/20 at £5.5m remains robust and prudent. Given what is known, or reasonably expected, regarding future funding reductions and given future uncertainties, a savings requirement of less than these sums would not be prudent.
44. A comprehensive revision of the Council's future financial forecasts and the consequent future savings requirements for the period 2020/21 to 2022/23 will be presented to the Council in February 2019. It will take into account all known variables and revise all key assumptions as well as extending the forecast to cover an additional year (2022/23) in order to maintain a rolling 3 year plus current year financial forecast.

### **Medium Term Financial Strategy - 2019/20 & Beyond**

#### Financial Strategy 2019/20 & Beyond

45. The Council's Medium Term Financial Strategy has been developed to respond to these very challenging circumstances. The Strategy has a strong regeneration and value for money focus with a presumption also that Capital investment will be targeted towards cost savings, income generation and economic growth.
46. Equally prominent in the strategy below is an emphasis on entrepreneurial activities leading to income generation as a means to make savings and avoid cuts to services.
47. The overall aim of the Strategy 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*

48. The 6 Themes of the Medium Term Financial Strategy themes are:



49. The MTFS themes 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 however, which seeks to improve and create financial resilience for the Council, is 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) Cushion the impact on services from "financial shocks"
- ii) "Smooth out" savings over a longer and manageable period, this enables longer-term savings (e.g. income generation and business rate / council tax income initiatives) to contribute towards savings which would otherwise have to be met from service cuts
- 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
- iv) Take a more balanced approach to risk

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

50. The Strategy is also underpinned by a financial framework which provides for the following:
- i) Year end underspendings within Portfolios to be carried forward where there is a good case to do so - this is intended to create the financial conditions that support responsible spending and promote forward financial planning.
  - ii) A delegation to the Director of Finance (S.151 Officer) to be able to transfer any residual year end underspend to:
    - a) General Reserves - to improve overall financial resilience of the Council and enable the "smoothing" of savings over time and avoiding "spikes" in savings required in any one year (this is particularly important given the forthcoming uncertainty associated with the Fair Funding Review and Business Rate "Reset")
    - b) Transformation Reserve - to provide funding for Invest to Save / Spend to Save schemes aimed at increasing income and/or reducing costs, it is crucial that this fund is both spent wisely and replenished at every opportunity.
    - c) Revenue Reserve for Capital (to increase the Capital Resources available to the Capital Programme) - to ensure core essential services can continue to be delivered but also to make available funding for regeneration in order to improve the Island economy as well as the Council's funding base through additional business rates and council tax
51. The Transformation Reserve and the Capital Programme are fundamental components of the Council's overall financial strategy which, if used wisely, will have a meaningful impact on future levels of cost and income and therefore the delivery of future savings.

### **Initial Budget Savings Proposals for 2019/20**

#### Budget Savings Proposals 2019/20

52. The Administration has taken a strategic approach to the allocation of savings across its Portfolios. In determining the contribution that each Portfolio should make towards the overall £5.5m of savings required it has carefully considered the following:
- i) The controllable spending power of each Portfolio and therefore the general scope for making savings
  - ii) The priority of each Portfolio given the nature of the services provided and the Council's approved Corporate Plan
  - iii) The relative exposure to cost pressures
  - iv) The relative ability to make efficiency savings
  - v) The relative ability to generate income
53. The Administration's initial budget savings proposals have then been developed to align with the Medium Term Financial Strategy previously described. They are focussed on raising income and improving the efficiency of the Council in an attempt to avoid reductions in services. Where reductions in services are proposed, these are deemed to be those which will have the least impact on service users.

54. In overall terms, the proposed £5.5m of savings are characterised as follows:

Description of Saving	Savings	
	£	%
Efficiency Savings (little or no reduction in Services)	£3.3m	60%
Additional Income	£1.9m	34%
Service Reduction	£0.3m	5%
<b>Total</b>	<b>£5.5m</b>	<b>100%</b>

55. For 2019/20, Efficiency Savings account for 60% of the proposed savings, with 34% relating to Additional Income and just 5% Service Reduction measures.

56. The initial savings proposals provide significant protection from savings for the Council's essential care services. Children's Services initial savings proposals amount to 2.3% of net spending versus the average saving of 3.5% across all Council areas. The savings proposed for Adult Social Care are also less than the average at 3.1% (note that Adult Social Care have also been provided with an additional £1.6m for demographic budget pressures). Significant efficiency savings are planned for Infrastructure & Transport relating to the Highways PFI scheme enabling savings of 6.8% to be achieved and Resources continue to deliver significantly greater savings at 4.5% driven by the continuing success of commercial property investments and savings in corporate taxation.

57. A summary of the initial savings proposals for 2019/20, by Portfolio, is set out below.

Portfolio / Service	Savings Proposal	
	£	% Budget
Adult Social Care, Public Health & Housing Needs*	2,087,500	3.1%
Children's Services	565,500	2.3%
Community Safety & Public Protection	275,000	2.5%
Environment & Heritage	291,600	2.6%
Infrastructure & Transport	1,251,300	6.8%
Leader & Strategic Partnerships	0	0.0%
Planning & Housing Renewal	79,700	3.1%
Procurement, Projects & Forward Planning	145,000	2.5%
Regeneration & Business Development	33,000	2.4%
Resources	771,400	4.5%
<b>Grand Total</b>	<b>5,500,000</b>	<b>3.5%</b>

\* Excludes additional funding passported through to Adult Social Care of £1.6m for demographic pressures and any further funding to be passported announced in the Autumn Budget

58. A full description of the initial proposed savings for 2019/20 is provided at Appendix 1. These are initial proposals at this stage. After consultation, a final set of savings proposals these will be presented to Full Council as part of the Annual Budget Setting meeting in February 2019. It is important to note that the Council's responsibility is to set the overall Budget of the Council and its Portfolios rather than determining the actual savings proposals to be delivered, that responsibility rests with the Portfolio Holder. 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. Therefore, any detailed savings proposals presented are for information and indicative only as a Portfolio Holder will have the freedom to swap savings in and out so long as the overall savings requirement approved by Council is met.

## Conclusion

59. The Council continues to face the challenge of significant funding reductions but compounded by increasing cost pressures, most of which are driven largely by demographic pressures in the essential care services. Inflation more generally is running at between 2.4% and 3.3%, out-stripping the level at which the council's funding rises. Taken together, this requires the Council to make savings and/or increase income by £16.5m over the next 3 years.
60. The first tranche of these savings amounting to £5.5m for 2019/20 have been developed in accordance with the Council's Medium Term Financial Strategy which focusses on the avoidance of cuts with an emphasis on:
- Increasing Efficiency & Effectiveness
  - Entrepreneurial, Commercial and Collaborative Activities (with managed risk)
  - Improving the Island Economy
  - Public Service Transformation

Given the speed at which savings need to be made, it is inevitable that some cuts are required. These cuts amount to just 5% of the total savings required.

61. The initial proposed savings are dominated by efficiency savings and additional income, which combined represent 95% of all savings. Furthermore, significant protection from savings has been proposed for the essential care services in Children's Services and Adult Social Care.

## STRATEGIC CONTEXT

62. The key driver in the Council's Corporate Plan, 2017 to 2020, is for the Council to be financially balanced and sustainable.
63. The initial savings proposals for 2019/20 of £5.5m described in this report are set within the context of the Council's approved Medium Term Financial Strategy.

## CONSULTATION

64. These are initial savings proposals at this stage and are being published to provide all members, residents, business and other stakeholders with sufficient time to consider and make any responses either through the forthcoming budget consultation, directly to the Council or through their local councillors or other representative groups. The initial savings proposals will be considered alongside the results from the Budget Consultation exercise due to commence later in November 2019 and all other responses before being finally proposed to Council for approval at the Annual Budget meeting in February 2019.
65. Immediate responses and observations to the recommendations set out in this paper can be sent to the council at the following email [Budget@iow.gov.uk](mailto:Budget@iow.gov.uk)
66. 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. Equality Impact Assessments will be considered before any

implementation can take place. Following consultation, the relevant Portfolio Holder may alter, amend or substitute any of the indicative savings proposal(s) with alternative proposal(s) amounting to the same value.

## FINANCIAL / BUDGET IMPLICATIONS

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

## LEGAL IMPLICATIONS

68. The council will need to set a lawful and balanced budget and Council Tax level for 2019/20 in February 2019. The proposals within this report are necessary preparation for the Budget & Council Tax Setting report to be considered by full Council.

## EQUALITY AND DIVERSITY

69. 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 is not necessary at this stage however the final Budget & Council Tax Setting Report for 2019/20 to be considered by Council will include an equality impact assessment in respect of the relevant proposals that arise out of the recommendations.

## PROPERTY IMPLICATIONS

70. 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 and property acquisitions are intended to provide a commercial return will only be purchased after full and proper due diligence and a full financial appraisal.

## OPTIONS

71. The initial savings proposals 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. To prepare the Budget for 2019/20 on the basis of a 2.99% increase in Council Tax, being an inflation based level and within the referendum thresholds currently being consulted upon
  - B. Note that following consultation, the Cabinet may wish to amend the level of Council Tax increase but for every 1% reduction, the total sum of savings to be found will increase correspondingly by £822,900 in order to align with the Council's MTFS.
  - C. Agree the initial savings proposals attached at Appendix 1 as a means to inform consultations with members, residents, business and other stakeholders.

- D. Note that following consultation, the Cabinet may wish to amend the initial savings proposals but the total sum of savings for 2019/20 will need to amount to £5.5m and be on-going savings in order to align with the Council's MTFS
- E. Note that savings requirements for the 2 further years of 2020/21 and 2021/22 forecast to be £5.5m per annum may change once the comprehensive revision of the Council's 3 Year Forecast has been completed and a new forecast prepared for the Annual Budget Meeting in February 2019
- F. Amend the initial savings proposals by substituting alternatives to maintain the overall value of savings at £5.5m
- G. Amend the initial savings proposals without fully substituting alternatives to maintain the overall value of savings at £5.5m but recognising that this is contrary to the Council's MTFS
- H. Reject the recommendations within this report but recognising that this is contrary to the Council's MTFS

## RISK MANAGEMENT

- 72. 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 initial savings 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.
- 73. The key risk is that the Council does not approve a schedule of savings either amounting to £5.5m or that are structured in a way that does not accord with the MTFS. In such circumstances, the approach to cost savings / additional income/funding is likely to be disorderly with sub optimal decisions taken which lead to greater than necessary cuts to essential services. Furthermore, any proposed amendments relating to reductions in savings will increase the use of General Reserves which ultimately compromises the financial health and resilience of the Council and as a consequence jeopardise the future of Council Services.

## EVALUATION

- 74. Options A through to E are recommended. As set out in this report the Council Tax and initial savings proposals 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. Options A through to E provides the necessary preparation for the Council's forthcoming Budget 2019/20 and minimises the medium term risk to the sustainability of Council services.

## RECOMMENDATION

75. It is recommended that the Cabinet approve options A, B, C, D and E and:
- A. To prepare the Budget for 2019/20 on the basis of a 2.99% increase in Council Tax, being an inflation based level and within the referendum thresholds currently being consulted upon
  - B. Note that following consultation, the Cabinet may wish to amend the level of Council Tax increase but for every 1% reduction, the total sum of savings to be found will increase correspondingly by £822,900 in order to align with the Council's MTFS
  - C. Agree the initial savings proposal attached at Appendix 1 as a means to inform consultations with members, residents, business and other stakeholders
  - D. Note that following consultation, the Cabinet may wish to amend the initial savings proposals but the total sum of savings for 2019/20 will need to amount to £5.5m and be on-going savings in order to align with the Council's MTFS.
  - E. Note that savings requirements for the 2 further years of 2020/21 and 2021/22 forecast to be £5.5m per annum may change once the comprehensive revision of the Council's 3 Year Forecast has been completed and a new forecast prepared for the Annual Budget Meeting in February 2019

## APPENDICES ATTACHED

76. [Appendix 1](#) - Initial Savings Proposals 2019/20

## BACKGROUND PAPERS

77. The following background papers have been relied upon in preparing this report.
- a. Budget & Council Tax Setting 2018/19 and Future Years Forecasts can be found at:  
<https://www.iow.gov.uk/Meetings/committees/mod-council/28-2-18/PAPER%20C.pdf>
  - b. 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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