

Committee report

Committee	CABINET
Date	TUESDAY, 13 JULY 2010
Title	BUDGET REVIEW – 2010/11
Report	LEADER OF THE ISLE OF WIGHT COUNCIL AND CABINET MEMBER FOR GOVERNANCE & SCHOOL IMPROVEMENT

PURPOSE

1. This report outlines the council's current revenue and capital budget position for 2010/11, as at July 2010. In particular it takes into account:
 - The budget monitoring position for the first two months of the year;
 - The progress in implementing savings as highlighted through the monthly Star Chamber process;
 - The impact of the £6.2bn of savings announced in May 2010 by the Chancellor of the Exchequer;
 - The emergency budget announced by the government on 22 June 2010.
2. This report, after taking into account all of these factors, recommends a number of proposals in order for the council to maintain its overall financial position and be able to deliver a robust and sustainable Medium-Term Financial Strategy. These recommendations will be considered by the Cabinet on 13 July 2010, ahead of Full Council on 21 July 2010.

BACKGROUND

3. The Council Meeting on 24 February 2010 agreed:
 - a) The Medium-Term Financial Strategy for the next three years;
 - b) The level of investment in service improvement and improved efficiency of some £133m over the next three years;
 - c) The level of savings to be achieved in 2010/11, totalling £13.430m;
 - d) A council tax increase for 2010/11 of 2.5%.
4. This was set against a backdrop of the recession and constrained resources. Some of the particular factors were:
 - a) A fall in overall income from fees and charges of over £2.5m per annum;
 - b) A fall in the interest earned on balances and reserves of over £2m per annum;
 - c) Additional service pressures of some £6.5m;
 - d) The annual impact of damping (£3.5m during the current financial year);
 - e) A significant shortfall in funding for the concessionary bus fares scheme
 - f) Recognition that future years funding would be severely curtailed.

5. Council also agreed that a mid-term budget review would be brought back to Council in September 2010, allowing all members to consider the impact of the budget decisions and whether there needs to be any in-year changes to ensure the delivery of a balanced budget for the remainder of the 2010-11 financial year.
6. In the light of the coalition government's announcement of some £6.2bn of in-year savings in 2010/11 and the emergency budget on 22 June 2010 it is felt necessary to have an earlier review in July and to follow this up with the scheduled review in September as well. It is proposed that a number of areas for expenditure review are agreed in July, to allow for further work to take place before decisions are made at the September meeting.

STRATEGIC CONTEXT

7. The council's refreshed Corporate Plan was agreed by Full Council at its meeting on 25 November 2009. It provides a framework for the delivery of the authority's 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.
8. 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.
9. The Medium-Term Budget Strategy adopted at Full Council on 24 February 2010 therefore directed significant resources to the seven key priorities and outcomes:
 - a) Schools Reorganisation;
 - b) Roads/Highways PFI;
 - c) Transforming Social Care;
 - d) Economic Development and Regeneration;
 - e) Fire Service Modernisation;
 - f) Local Housing;
 - g) Delivering Better Services.

UPDATED POSITION

10. This report sets out the latest position and its impact on the budget strategy from four aspects:
 - a) The impact of the £6.2bn national savings in 2010/11;
 - b) The emergency budget announced on 22 June 2010;
 - c) The implementation of savings agreed in the 2010/11 budget considered at Star Chambers between April and June;
 - d) The outturn for 2009/10 and the budget monitoring position to end of June 2010.

Impact of £6.2bn national savings in 2010/11

11. The Chancellor of the Exchequer announced a package of measures and savings in May 2010 that would deliver £6.2bn of savings in the current financial year. These savings apply for local government generally. For the Isle of Wight Council the detail of these saving was set out on the 10 June 2010 as follows:

- a) A reduction in Area Based Grants of £1.033m;
- b) A stopping of specific projects which were grant funded of £261k in 2010/11;
- c) Removal of specific funding for Local Authority Business Growth Incentive scheme, Local Area Agreement reward grant and Housing and Planning and Delivery Grant – in total some £1.462m;
- d) Reduction in Local Transport and Road Safety Capital Grants of £470k.

Emergency Budget – 22 June 2010

12. The government set out its emergency budget on 22 June 2010. This outlined the overall position for public finances over the next five years and detailed proposals for tax changes and spending plans that will be implemented. This is set in the context of the overriding commitment to reduce the national deficit and the need to rebalance the economy and therefore proposes significant reductions in public sector spend.
13. The key elements of the budget that will impact on the Isle of Wight Council are:
 - A two year pay freeze, with a flat rate increase of £250 for employees earning less than £21,000 in 2011/12 and 2012/13. The local impact of this limited increase will be some £270k each year, excluding schools;
 - The change to the National Insurance contribution threshold will reduce the additional cost to the Isle of Wight Council of the 1% increase on 1 April 2011 from £534k to £350k;
 - Reviews of pay levels and pensions;
 - Prudential borrowing to be monitored;
 - Council tax freeze if budget set at government target (assumed 2.5% or 2.9% compensates for loss of income);
 - Land fill tax continues at +£8 per tonne increase each year as previously set;
 - Regional growth fund;
 - No further cuts in capital projects but all to be reviewed;
 - VAT increase from 17.5% to 20% effective from 4 January 2011. This will have a limited impact on local authorities.
14. The biggest impact however is the setting of the public spending envelope that will be used in the Comprehensive Spending Review that will be announced on 20 October 2010. This will determine the overall budget allocations for each government department, which will determine what resources will be made available locally through the Revenue Support Grant, Area Based Grant and other specific grants.
15. We will not know until 20 October 2010 what the specific departmental expenditure levels are and not until the end of November what the actual settlement for the Isle of Wight will be. However the underlying implication of the budget is that, after protecting health and overseas aid, that there will be an **AVERAGE REAL TERMS REDUCTION OF 25% IN TOTAL** over the next four financial years. Indications have also been received of limited reductions in the areas of defence and education.
16. As an average (25%) this could be higher or lower for local authority services but at this stage it is absolutely clear that our resources will be severely reduced over the next few years and we need to be planning and implementing strategies now to accommodate such a reduction.
17. In resource terms the council in 2010/11 will receive some £61.4m in Revenue Support Grant, £12.7m in Area Based Grant (after the £1.033m reduction) and some £14m in other specific grants excluding those related to schools and benefits. In total therefore, our

potential risk is a reduction against some £88m. At 25% this would equate to £22m or an average of an additional £5.5m savings needed each year for four years. However it is likely that the reductions in grant will not be evenly spread over the four years and therefore could be front loaded with a higher impact in 2011/12. Also the 25% is an average and could be higher if other non-local authority services are subject to lesser reductions.

18. This is in addition to the savings required from delivering better services of £12.765m over this year and the next two financial years and on top of any demographic or other budget pressures that might arise.
19. The council has already taken a number of actions to prepare for a reduction in resources through its approach to its Medium-Term Financial Strategy, the transformation programme delivering better services, the savings it initiated in the 2010/11 budget and through its Corporate Plan in setting out its key priorities.
20. It is clear however that this will not be enough and therefore a radical change to what the council delivers and how it delivers it is required.

Savings implementation outcome from Star Chambers

21. Star Chambers have been held in April and May with a third series in progress. These have concentrated on considering the implementation plans for the savings agreed at Council on 24 February 2010 and emerging budget pressures. There are four separate star chambers covering transformation, economy and environment, community services and children and young people.
22. The overview of achievement of savings is set out in Appendix 1. Some savings are at risk due to existing contractual arrangements and the need to re-procure services. In addition timescales have slipped where a service review is required to establish future provision. The position shows that in overall terms there is a potential risk of an under achievement of £3m as follows:

SERVICE AREA	Direct Service savings £'000	Current projection of saving achievement £'000	Transformation Savings £'000	Current projection of saving achievement £'000	Total budgeted savings £'000	Total current projected savings £'000
Children and Young People Services	132	132	618	618	750	750
Community Services	2,963	981	478	297	3,441	1,278
Supporting People	1,950	1,950	0	0	1,950	1,950
Economy and Environment	3,422	2,585	365	365	3,787	2,950
Transformation – Back Office/ central savings	1,463	1,463	2,039	2,039	2,039	2,039
Total	9,930	7,111	3,500	3,319	13,430	10,430

Outturn 2009/10 and budget monitoring position to 31 May 2010

23. The 2009/10 outturn and related financial accounts position was reported to the Audit Committee on the 29 June 2010.
24. This highlighted a small overall overspend of £342k on a net budget of £132m. This is a particularly good result bearing in mind the severe budget pressures that we faced during 2009/10 and that an overspend of some £3.5m was projected. Strong financial management and control across all services has enabled a number of overspends to be contained within the overall budget.
25. A summary of the outturn position is set out in Appendix 2.
26. Despite the very good overall result there are a number of ongoing pressures that will impact on the current year. These relate to Adult Social Care where there was a gross overspend of some £4.7m, albeit offset by an underspend of £1m elsewhere in Community services and in children's placements where there was an overall overspend of £1.5m again mainly offset by one-off savings elsewhere in Children and Young People services.
27. Against this position some £3.5m was added to the budget for Adult Social Care and £750k for children's placements for 2010/11.
28. Although it is still early in the financial year there are clear indications from the first three months activity that a number of budget pressures are continuing and certain issues emerging that may lead to significant overspend in 2010/11 if alternative action is not taken.
29. The main pressures are detailed in Appendix 7 and total some £2.5m as follows:
 - (a) Adult Social Care – increased volume of service £1,380;
 - (b) Children's placement costs – additional pressure £500k;
 - (c) Children's safeguarding – recruitment and retention £370k;
 - (d) School lift – additional potential cost £250k;
 - (e) Waste management costs – a risk area but at this stage still satisfactory/manageable.

Overall

30. Taking all these aspects together means that the 2010/11 budget is under significant pressure and if further action is not taken a substantial overspend will occur potentially some £6.5m. In the context of the national budget and a potential 25% reduction in government grants over the next four years this is not sustainable.
31. In previous years, we have successfully managed projected overspends mainly through using one-off resources such as Area Based Grant, staffing underspends and proactive budget management. The availability of one-offs and using underspends will be extremely curtailed for this year due to the reductions on Area Based Grant and resources generally and the savings being achieved from cash limiting supplies and reducing spend generally.
32. Following the outturn for 2009/10 the reserves and balances position is set out in Appendix 3. This shows that available balances (General Fund plus uninsured risks

reserve) total £12.1m. Against these, however, a number of risks are held as set out in Appendix 4.

33. It is necessary therefore to consider what further measures should be taken at this stage in the light of all these issues. At Full Council in September 2010 a further report will be made on the overall position which will have the benefit of activity data for a five month period. Some specific issues related to car parking income and the impact of parking permit changes can be better assessed then and the result of some of the service transformation projects will have been completed and their impact known.
34. The immediate consideration has therefore concentrated on what measures should be implemented now in order to achieve a balanced budget for 2010/11 and make further preparations for 2011/12 and beyond.
35. The recommended strategy has three strands of action which are being recommended for consideration:
 - Contain spend in 2010/11 to budget;
 - Identify areas for budget review for September Council;
 - Identify areas for review for more radical change as preparation for 2011/12 budget.
36. A detailed description of each proposal is set out in Appendix 5.

CONSULTATION

37. For the 2010/11 budget a combination of measures were 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 2009.
38. The results of these measures were analysed and fed into the budget process to influence decisions on resource allocation. A summary of the responses was set out in the report to Full Council on 24 February 2010 when considering the budget strategy.
39. The Overview and Scrutiny Committee also play a key role in considering and scrutinising the budget. The overall budget position was considered at various meetings during the process with comments and recommendations going to Cabinet for consideration.
40. For the scrutiny of the delivery of the current budget and the development of the 2011/12 budget, an outline timetable has been drawn up and is attached at Appendix 8. This sets out the work that the Overview and Scrutiny Committee will undertake on the budget over the next seven months. In particular a detailed look at the current year's budget progress at its meeting on 29 September 2010 (following the budget review at Council in September 2010), consideration of the overall financial position of the council for 2011/12 and onwards at its meetings in November and December 2010 and consideration of the actual budget proposals at a meeting in February 2011 with views and recommendations going to Cabinet on 8 February 2011 for consideration.
41. The Cabinet will be considering this report at its meeting on 13 July 2010 and its recommendations will be distributed following that meeting, ahead of further consideration at Full Council on 21 July 2010.

FINANCIAL / BUDGET IMPLICATIONS

42. This report is entirely about the overall financial and budgetary position of the council and sets out the financial and budget issues that the council is now facing following measures adopted by the coalition government and the emergency budget announced on 22 June 2010. This together with the council's own emerging budget pressures and the risk on savings implementation highlights the need for additional measures to ensure financial stability.

LEGAL IMPLICATIONS

43. The council set a balanced budget and council tax levels for 2010/11 on 24 February 2010. In doing this, it agreed a budget strategy that included a range of savings that needed to be achieved and levels of overall service investment and spend that could be afforded. Since that decision the government has introduced a number of measures that will have an impact on the council's ability to deliver that overall budget framework. The council needs to consider, in the light of this and the budget monitoring position and risks highlighted on achievement of savings, further measures to ensure that it meets its statutory duties in relation to provision of services and in complying with relevant financial and budgetary duties. Members should have regard to the statutory duties (under s151 Local Government Act 1972 as amended) 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

44. The overall strategy adopted by council balanced the needs of service users, residents, council taxpayers, business, and voluntary sector against council tax increases, the level of savings to be made and the level of investment in the outcomes to be achieved through the Corporate Plan priorities.
45. 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 overall equalities impact assessment was undertaken which was subsequently followed up by equality impact assessments on specific savings proposals where relevant. The changes proposed in this report have been the subject of a further overall Equality Impact Assessment which is set out in Appendix 6. Further work will be undertaken at the service level to provide more specific equality impact assessments where appropriate.

OPTIONS

46. 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, savings proposals etc.
47. At this stage there are three main options open to the council in delivering the Budget Framework that was adopted on 24 February 2010. At its meeting on 13 July 2010, the Cabinet can consider which of these to recommend to Full Council.

Option 1

Not to take any further action at this stage and report back to Council in September 2010 when the budget management position will be clearer with five months of the financial year gone.

Option 2

To accept the proposals in full as set out further below, and recommend them to Full Council on 21 July 2010.

Option 3

To accept some of the proposals as set out further below, and recommend them to Full Council on 21 July 2010, and consider any alternative proposals for savings.

EVALUATION

48. The benefit of Option 1 is that there will be more time to consider proposed savings and more detailed information, analysis and trends will be available. The major disbenefit is that any implementation of savings will be significantly delayed with a more limited impact in the current financial year. Whereas for parking income it is sensible to await further information and consideration in the context of the financial position outlined here, it would be a very significant financial risk to defer any action on the other proposals and could put the investment in the council's seven key priorities at risk.
49. Option 2 is the recommended approach as it results from the detailed consideration of the issues over recent weeks and months. It balances the need to make certain decisions now against looking in more detail at other potential proposals with a view to reporting back to Full Council in September 2010.
50. Option 3 is agreeing some of the proposed decisions now but not agreeing others. In the context of the overall financial position it is felt that if certain proposals are not agreed then alternatives should be identified. In reality any alternative proposals would need to be worked up and their implementation considered in detail. Effectively therefore this would be deferred to Full Council in September and is not recommended. However additional areas for consideration could be agreed for further work to be done so that they can be reported on in September.

RISK MANAGEMENT

51. The key risks of the budget strategy relate to budget pressures being even higher than anticipated, savings and efficiencies not being achieved, proposed income levels not being achieved and inflation higher than expected. These risks are contained in the strategic risk register. The risk assessment set out in Appendix 4 matches the potential financial risks to reserves available to meet them.
52. General Fund balances of at least £5m need to be maintained on top of earmarked reserves to provide a sustainable position which protects the financial health of the council in the medium term. Savings implementation plans have been adopted and are rigorously monitored through the Star Chamber process. Budgetary control and reporting have been

further strengthened. If savings from efficiencies and transformation are not achieved to the levels required then commensurate reductions will need to be made.

53. At this stage the key risk is not taking decisive action to deal with the overall financial position facing the council following the government's announcement of the £6.2bn of savings and the emergency budget. Failure to contain spend and implement further measures to raise income now will lead to an overspend and potential depletion of balances below acceptable levels. In addition it is clear that the financial settlement through the Revenue Support Grant for 2011/12 will give the council significantly less resources than it has now which could make the budget gap next year unachievable unless immediate action is taken.

RECOMMENDATIONS

54. THAT CABINET:

- i. Consider this report and the financial position facing the council and agree any areas of activity that should be developed for consideration in September 2010.
- ii. Consider the Equality Impact Assessment set out in Appendix 6.
- iii. Consider the budget savings proposals as set out in Appendix 5, and agree proposals to be recommended to Full Council on 21 July 2010:
 - (a) That should be implemented immediately;
 - (b) The areas for review ahead of decisions at September 2010 Full Council;
 - (c) The areas for review ahead of more radical change as preparation for the 2011/12 budget.

APPENDICES ATTACHED

55. [APPENDIX 1](#) - Achievement of savings 2010/11
56. [APPENDIX 2](#) - Summary outturn 2009/10
57. [APPENDIX 3](#) - Reserves and Balances position
58. [APPENDIX 4](#) - Risk Assessment
59. [APPENDIX 5](#) - Schedule of savings proposals
60. [APPENDIX 6](#) - Equality Impact Assessment
61. [APPENDIX 7](#) - Current year's budget pressures
62. [APPENDIX 8](#) - Outline Budget Timetable

BACKGROUND PAPERS

63. 2010/11-2012/13 Budget Strategy and Council Tax Setting report to Council 24 February 2010.
64. Revised Grant allocation notifications 2010/11
65. Emergency Budget announcement 22 June 2010

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