

Isle of Wight Council

Medium Term Financial Strategy 2011/2014



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Introduction

The previous Medium-Term Financial Strategy covered the financial years 2010-13 and was in line with the first three year Revenue Support Grant settlement introduced by the Government. Following the Comprehensive Spending Review announced in October 2010, the grant settlement to local government has been significantly reduced and this requires radical and fundamental changes to our medium term financial strategy.

The purpose of the Medium-Term Financial Strategy is to ensure that the overall vision, objectives and outcomes sought for the local community are deliverable within the resources that are available or likely to be available in the medium term. Final revenue support grant settlement figures announced in January 2011, reflect an overall 26% cut in grant funding or approximately £20.8m less for the Isle of Wight spread over 4 years, but with some three quarters of this reduction being applied in 2011/12 and 2012/13.

In addition to these unprecedented cuts in funding, the Council is also facing an increase in demand for services such as adult social care and childrens services, reductions in income from charges such as parking, and increasing costs for goods and materials due to rises in inflation, which together with the cuts in grant, mean we face a £33m shortfall in our budget over the next 4 years. In this financial environment, the Council will need to ensure that its limited resources are deployed to the priorities of the Council and our community. We will have to re-shape our budget and redirect resources away from lower priority areas and ensure we live within our means.

An essential ingredient to our ability to achieve our priorities is the delivery of Value for Money across all our activities, and achievement of significant deliverable savings from transformation and efficiency measures. Our savings targets make up an increasing element of our budget strategy and our ability to address shortfalls in savings in year will be severely constricted by existing pressures on service budgets and on reserves.

This Medium-Term Financial Strategy sets out the strategic financial framework that will support our ability to address the cuts in Government funding whilst ensuring the achievement of the Council's Vision, the improvement priorities needed and the delivery of improved outcomes to our community.



Cllr David Pugh
Leader and
Cabinet Member for Resources



Dave Burbage
Strategic Director of Resources

Strategic Context

The Isle of Wight Council's vision is to see high quality public services provided cost effectively to the local taxpayer and in doing so, improve the quality of life enjoyed by all Island residents, now and in the future.

The Council does not see itself as the sole provider of such services and will determine for each service, which model of delivery is most likely to ensure that its vision is met, whilst providing best value for money. The long-term interests of the Island and its residents will continue to be the key factor in making any such decisions, but the Council also has a responsibility to ensure that it complies with relevant financial and budgetary duties.

Key Council Priorities

The Council's Corporate Plan, which sets out the key strategic priorities for the Isle of Wight Council over the coming year has identified eight key priority areas:

- Raising educational standards;
- Highways PFI Scheme;
- Keeping children safe;
- Supporting older and vulnerable residents;
- Regeneration and the Economy;
- Waste strategy;
- Housing and homelessness;
- Delivery of budget savings through changed service provision.

Comprehensive Spending Review and Grant Settlement for 2011-15

Following the CSR announcements and the significant reductions in grant funding, the Council now needs to realign its resources and focus on the priority areas for the Island community. The Council currently directly provides a number of services and commissions or contracts a range of others. In the context of the national changes to grant funding, and the local pressures that we face, it is apparent that the range and level of services we currently provide and commission is not sustainable. Therefore we need to develop an organisation that has a size and shape that will be fit for purpose into the future. It is vital that the Council establishes a future direction that can be pursued through a robust financial strategy which will enable us to live within our means.

This strategy will need to:

- Establish a base for the Council's contribution to a sustainable economy for the Island;
- Invest in services that reduce the need to intervene later at a higher cost by taking action which will mitigate the impact on the most vulnerable in our community;
- Focus on achieving the outcomes agreed in the corporate plan and direct resources to agreed priorities within the resources available;
- Direct resources to those areas that enable us to discharge our statutory duties at an appropriate level;
- Identify those services which we will no longer provide or those that we might enable others to provide with minimal input from the Council;

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- Challenge the way we currently do things and give serious consideration to different delivery models to achieve the stated outcomes;
 - Reduce the shape and size of the organisation in order to secure effectively the vision and outcomes of the Council within the resources available;
 - Reduce our financial commitments over the next four years to meet the resources available by:
 - Developing partnerships which reflect a placed based approach as opposed to public sector agencies acting in isolation;
 - Moving from direct provision to commissioning which will enable other agencies to provide services within a reduced budget;
 - Identifying opportunities for staff to take management of services outside the direct control of the Council;
 - Optimising income;
 - Reducing or even ceasing some services;
 - Managing residents expectations in terms of what is financially viable.

To enable the Council to meet the above requirements the following principles have been adopted to enable us to decide what and how the Council will commission or provide:

- that, wherever possible, local communities and residents will take responsibility for their local area and make an active contribution to their community as the reliance on state and local Council funded activity reduces;
- the Council will actively pursue the opportunities created by partnerships to commission or deliver services, particularly those that engage local communities and use available resources in a more coherent and efficient way;
- the Council will only directly provide any commercial / trading undertaking or activities which have a robust business case (reflecting the true costs) and have little or no residual cost to the Council with the Council achieving the 'best return' for its investment;
- the Council will seek actively to sell or dispose of assets that are surplus to requirements where practicable to maximise receipts, or lease them where it is not (including through community asset transfer);
- the public will resolve their issues increasingly through the internet without need of personal contact with Council staff. When they do need personal contact, we will resolve their issues at the first point of contact i.e. the customer service centre;
- all areas of statutory duty to be subjected to robust challenge to ensure that the investment in resources is at the appropriate level, following a reasonable needs assessment, to ensure our responsibilities are met adequately;
- all core services will be subject to review regarding what must be done, what can be stopped or done differently with a view to supporting the creation of social enterprises, community interest companies or joint ventures that will each or all support the achievement of the agreed outcomes but at reduced cost, including the opportunity for 'management buy-out' opportunities;
- central support services will be reduced on a pro rata basis over time to reflect the changing shape and size of the organisation and, where appropriate, will be subject to market testing and/or joint working with other local authorities;
- there will be less resources, leading to fewer buildings and fewer staff;

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- the Council will raise income through charging to sustain discretionary services.

Partnership Working

To ensure the work of the Council is delivered effectively within the Island community, our ongoing work with partners will be strengthened with a review of the existing Island Strategic Partnership (ISP) as the requirement to have a local strategic partnership subject to approval by government office has now been removed.

This, coupled with the government's NHS reforms has significant implications for the Isle of Wight Council creating both opportunities and challenges. As the need for health and local government organisations to work together becomes more evident it is essential that the authority works effectively with the emerging GP Commissioning Cluster to ensure that partners focus on the needs of the Island community and utilise our combined resources to best effect.

Establishing the new model of a Health and Wellbeing Board will be key to this as will the contribution of the Joint Strategic Needs Assessment (JSNA) in shaping our identification and response to our joint priorities. The JSNA aspires to provide the 'big picture' for the health and wellbeing needs of the Island's population, helping to set priorities, targets and outcomes for the delivery of services by the local public sector and to reduce health inequalities on the Island.

In addition to this we need to prepare for the transfer of responsibilities for public health services in 2013 by building on the good working relationships that we already enjoy.

Joint Strategic Needs Assessment (JSNA)

The JSNA aspires to provide the 'big picture' for the health and wellbeing needs of the Island's population, providing the evidence base for service delivery by the public sector to reduce health inequalities on the Island. Based on a Government Outcome Framework currently under consultation and augmented with local information it informs priority and target setting by the Health and Wellbeing Board, as they seek to realise the Government's vision *"to improve and protect the nation's health, and to improve the health of the poorest, fastest."*

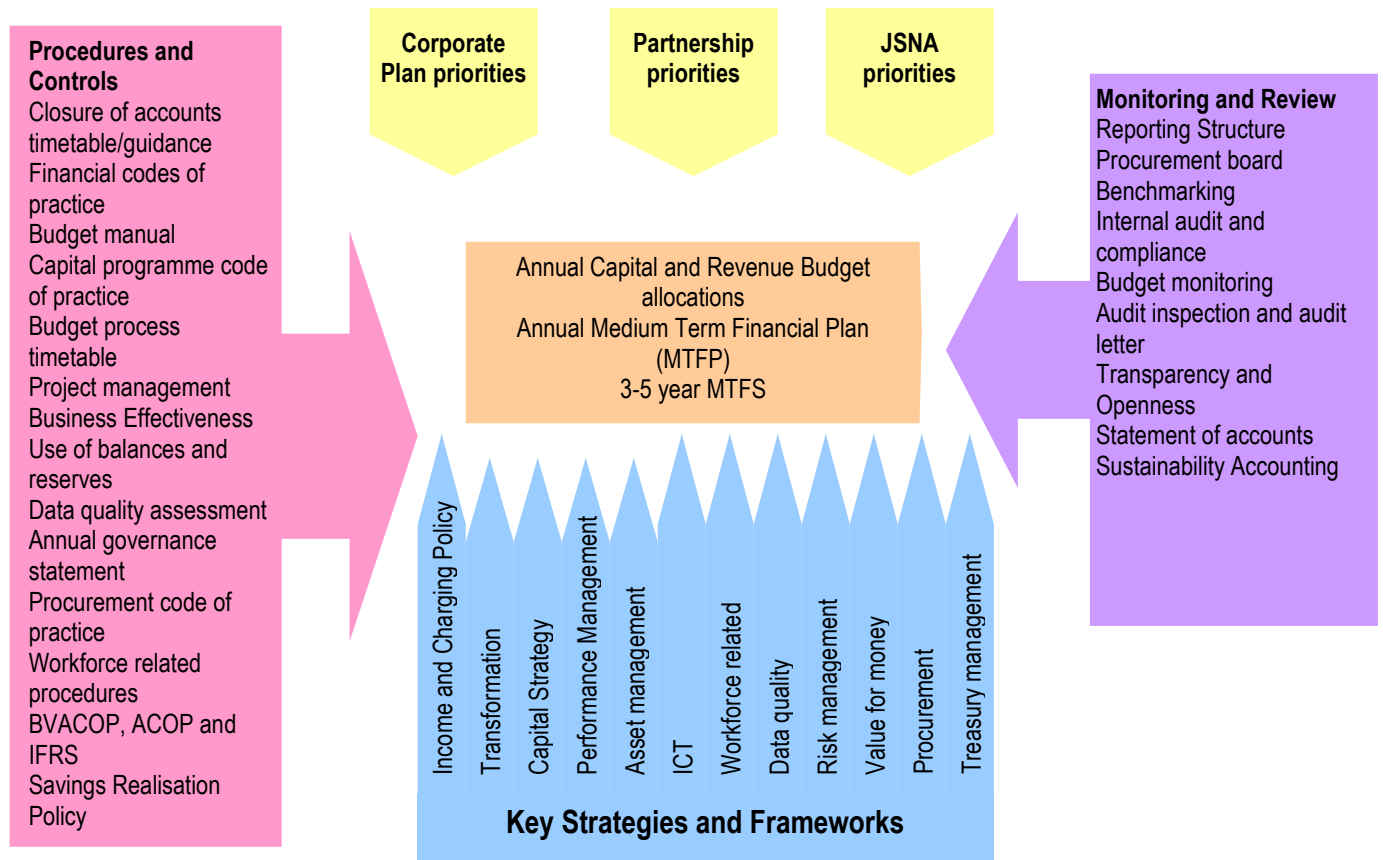
Medium Term Financial Strategy (MTFS)

The MTFS is one of six key strategies and plans aligned to the corporate plan, the others being the value for money strategy, organisational development strategy, ICT strategy, strategic asset management plan and transformation strategy. The key elements of the MTFS are to:

- Invest in key projects, priorities and change in services that deliver improved results for residents;
- Maintain and improve core service delivery and performance so we are an effective Council
- Maintain appropriate levels of Council Tax increases;
- Reduce costs to ensure we are an efficient organisation that delivers value for money;
- Invest up front in transformation, ICT, and property rationalisation, to deliver long-term savings;
- Be clear and realistic about the priorities of the Council and its capacity to deliver;
- Balance the budget and deliver a sustainable organisation that lives within its means on an ongoing basis.

The MTFFS also includes the overall revenue and capital budget strategy which sets out how the Council will resource the key projects, changes and improvements that flow from the Council's vision and strategic objectives – together with the redirection of resources over time to meet these priorities, whilst balancing the budget gap.

The MTFFS brings together the various strategies, plans, procedures and reviews which will enable the Council to deliver its priorities over the next 3 years as shown below:



Local Context

Children's Social Care

Following the high profile Children's Services case in Haringey during 2007, Children's Social Care teams nationally have identified a continued upward trend of referrals for children at risk with a view to an assessment of their social care needs. On the Isle of Wight this trend has resulted in an increase in numbers of referrals to the assessment team of 5.6% during the first quarter of 2010/11, with a consequent impact on Children's Social Care budgets. Initial assessment activity has been increased by 26% (up to October 2010). Consequently, the number of Children Looked After (CLA) has also risen with a 9% in year increase during 2010/11, the majority of whom have been admitted to care via court processes. Rising numbers of CLA means that costs of foster care placements and specialist placements in children's homes also rise. An assessment of the additional budget pressure arising from increased activity suggested an increased budget requirement of £678k in 2010/11, with an ongoing budget requirement in future years. An additional £500k plus an incremental allowance of £100k per annum has been built into the Medium Term Financial Plan (MTFP), however the amount of the ongoing commitment will be subject to review and management action with an expectation that it drops out of the MTFP after 2014/15.

A further impact on the MTFP has arisen from an inability to recruit sufficient qualified Children's Social Care practitioners on the Isle of Wight to deal with the increased caseload. In order to be able to address this issue, children's social work pay costs have been realigned to the equivalent of their mainland counterparts, subject to appropriate performance requirements. The impact of this change was an increased budget requirement of up to £370k in 2010/11, with an ongoing budget requirement of £500k per annum built into the MTFP.

Adult's Social Care

Demographic increases are expected to cause financial pressures in the provision of adult social care services. The key client groups affected are Older People (aged 65+), Dementia, and Learning Disability. The Older People population is seeing significant growth of 3-4% per annum over the next five years and there is a similar growth in people living with dementia. There is a slightly slower growth rate for people with a moderate or severe learning disability of 1-2% per annum but supported clients often have high cost packages of care and when transition cases (children with learning disabilities reaching adulthood) are factored in, this represents a significant expected increase in costs.

The estimated population increases for the next five years are as follows:

Key Client Groups	Estimated % increases in population (cumulative)				
	2011/12	2012/13	2013/14	2014/15	2015/16
Older People (aged 65+)	3	7	10	13	15
Dementia	1	4	7	10	11
Learning Disabilities	1	2	2	4	4

Information from the POPPI (Projecting Older People Population Information System) website.

Factoring in these increases for the current adult social care client base, and including estimated increases for learning disability transition cases, the estimated increase in costs is as follows :

Year	Increased Cost (cumulative) £m
2011/12	3.2
2012/13	6.1
2013/14	9.1
2014/15	12.0
2015/16	14.6

However, it is expected that preventative measures and reablement services will reduce the actual impact of this. Therefore the assumptions have been reduced to the following levels:

Key Client Groups	Estimated % increases in population (cumulative)				
	2011/12	2012/13	2013/14	2014/15	2015/16
Older People (aged 65+)	2.1	5.5	8.0	9.9	11.3
Dementia	0.7	3.3	5.8	7.7	8.4
Learning Disabilities	0.7	1.6	1.6	2.8	2.8

The amount that has therefore been built into the MTFS is as follows:

Year	Increased Cost (cumulative) £m
2011/12	2.2
2012/13	4.7
2013/14	7.2
2014/15	9.0
2015/16	10.8

Schools Reorganisation

In July 2010, the Council appointed Willmott Dixon as its development partner for phase 2 and 3 of the school reorganisation programme. Architects HNW and engineers Green Wood Building Services and Tarl Willis have also been appointed and the whole team are working closely to establish and develop the scope and programme of works for phases 2 and 3. Phil UK has now begun work on the Cowes OSP expected to be completed ahead of the start of the 2012/13 academic year. The 2 programmes have a combined budget of over £60m and their delivery over the next 3 years will have a significant impact on the Council's cash flow and treasury management activities.

Waste Management

The Council's existing Integrated Waste Management PFI contract is scheduled for completion in October 2015. Whilst that date is still some four years away, it is a relatively tight timescale in terms of the requirement to develop a waste management strategy for the Island, re-let the waste management contract, construct a new landfill facility and develop, or redevelop, waste treatment facilities. The Council is in a fairly unique position in that it is required to deal with waste in an island environment, and cannot easily transfer its waste to another authority for disposal, which would be the case for many mainland waste disposal authorities. Hence there is a need to commence work now to plan for the new contractual arrangements in 2015.

The existing integrated waste contract delivers all municipal and household waste services on the island. These include the kerbside collection of household and recyclable waste, the operation of the island's three Household Waste Recycling Centres and management of the landfill site at Standen Heath. The contract also includes the operation of the Council's Resource Recovery Facility at Forest Road, which processes residual household waste to produce a 'floc' fuel for use by the adjacent gasification plant. As Waste Disposal Authority, the Council is responsible for paying Landfill Tax to HMRC.

The current landfill site which is owned and operated by Island Waste Services (IWS), was due to reach its maximum capacity by October 2015, in line with the end of the integrated waste contract. However, a recent survey has identified that due to the settlement of the waste that has been landfilled to date, there is likely to be additional capacity which could extend the life of the existing site for between 12 months to 3 years. Whilst any such spare capacity is owned by IWS, the Council has some rights to take an option to use the additional capacity to reduce the pressure from the construction timeline for any new landfill site. Nonetheless, a provisional capital growth figure of £5m has been identified for the cost of construction of new facilities. However, if the Council has to find alternative land to construct new facilities, or use interim waste treatment and disposal facilities there could be further significant costs and time delays. This will become clearer through the consultation and tendering process in future years.

General Inflation

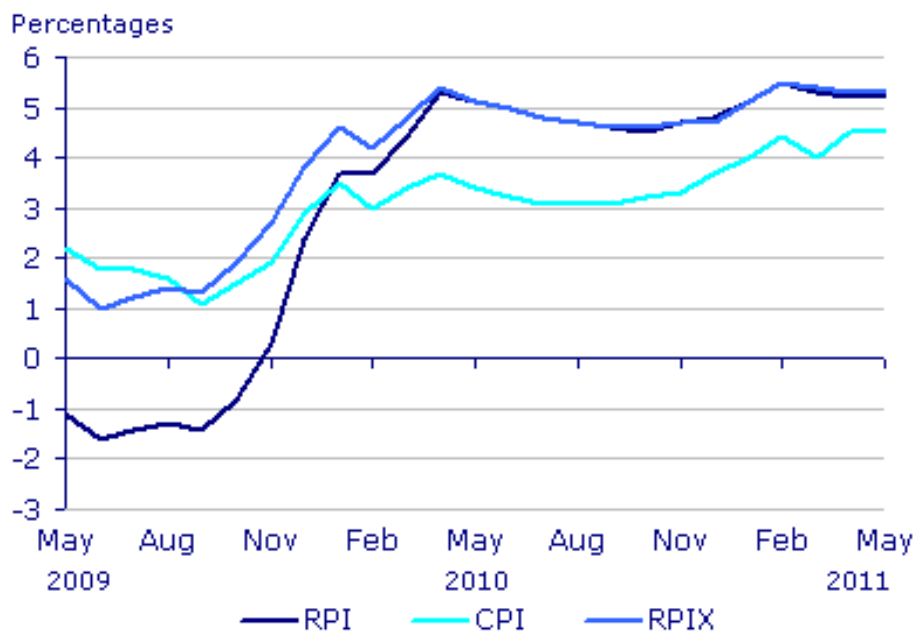
As part of its medium term financial planning assumptions, the Council takes into account the likely impact on the budget of changes in pay and prices. In simple terms, inflation is the rate of change in the level of prices for goods and services and is expressed as a percentage change in an index compared with a previous period, usually the same month in the previous year.

In the UK there are two main measures of inflation – the Consumer Prices Index (CPI) and the Retail Prices Index (RPI). The CPI forms the basis for the Government’s inflation target each year, and is an internationally comparable measure of inflation. Currently the RPI is used to index various prices and income streams including tax allowances, state benefits and pensions. However the Government has announced that from April 2011 the CPI will form the base index for benefits, tax credits and public service pensions. The CPI is a weighted average of a ‘basket of typical goods and services’ purchased by a ‘typical consumer’ over a period of 12 months.

The Council uses CPI as a standard indicator of inflation in calculating the inflation contingency budget for future years. However, specific contracts may include other inflation indices and those are used in the inflation model where appropriate.

In the year to May 2011 the CPI has risen by 4.5%, and the RPI by 5.2%.

The graph below shows changes in the rate of inflation over the last two years:



Annual inflation rates - 12 month percentage change

(Source: Office for National Statistics website – www.statistics.gov.uk)

Although the net impact has been a slight rise in prices, there are variations both upwards and downwards within the basket of indicators used. Main upward drivers have been food, non-alcoholic beverages and clothing; whilst the main downward drivers include recreation and culture, air transport etc.

Following the announcement of the CPI rate for October 2010, HM Treasury acknowledged that the prospects for inflation remain highly uncertain, with substantial risks in both directions. In

particular, they predict that the short term inflation forecast is likely to remain above the target of 2% throughout 2011, partly due to the VAT increase and partly due to increases in commodity and other export prices. However, it is still forecast that CPI will return close to target by 2012 and remain around that level as the impact of spending controls begin to have an impact.

However, because of other pressure areas on the Council's budgets, including the need to accommodate increases in Landfill Tax, National Insurance rates and the Carbon Reduction Commitment, the Council will not be increasing the inflation contingency budget for general price increases, with the result that any inflation incurred will need to be funded from existing cash limited budgets within the Council's service directorates.

A 1% increase in inflation across Council budgets (excluding Schools and Housing Benefits) implies a budget increase of some £1.8m, offset by any increases the Council may make to its own fees and charges.

The Council's inflation assumptions for 2011/12, and future years, are set out in the table below:

Inflation Assumption	Commentary
Pay Inflation – 0.0% plus allowance for staff earning less than £21k per year	Budget assumption 0.0% for 2011/12 and 2012/13 - this reflects the Coalition Government's announcement that there will be a 2 year public sector pay freeze, a provision is included for a pay award of 1.0% in 2013/14 and 1.0% in 2014/15
Schools Inflation including Teacher's pay	Similar assumptions on pay and prices to other Council budgets, however schools inflation is accommodated within the overall amount of the Dedicated Schools Grant year on year
Price Inflation General (non-pay) – 2.5%	Inflation factor based on Consumer Price Index (CPI) at 30 November (3.3%) and HM Treasury's forecasts for the economy, however little used due to the need to cash limit budgets as a result of the national economic position and the need to demonstrate value for money and efficiency savings
Waste Management Inflation – 4.37%	Waste management contract has annual reviews in November each year, inflation assumptions based on a combination of RPI and Implied GDP Deflator at 30 September each year. On this occasion the combined inflation factor is 4.37% - future year's assumptions are 3.0% in 2012/13 and 2.5% each year thereafter
Public Transport Inflation – 1.0%	The Council has a number of budgets which are directly linked to the provision of public transport for the local community, inflation assumption based on estimate of service provider's pay award given national economic position
Energy Inflation – Electricity 0.0%, Gas 0.0%, Fuel 1.0%, Street Lighting 1.0%	Inflation on energy budgets, including street lighting energy, has risen by significant amounts in recent years; in many cases contracts are now in place, with inflation assumptions based on known contract prices; the Council's energy efficiency measures will also contribute towards controlling energy costs
Highways Inflation – 4.6%	A number of highway maintenance and similar contracts have annual inflation reviews in place, based on the RPI All Items index; on this occasion the inflation factor used is 4.6%, future year's assumptions are 3.0% in 2012/13 and 2.5% each year thereafter
Cash Limited Budgets – 0.0%	In order for the Council to be able to demonstrate that it is achieving value for money in delivering services to the local community, a number of budgets have been cash-limited

	<p>year on year with the intention that efficiency savings will be delivered; examples of cash limited budgets include:</p> <ul style="list-style-type: none"> Books and publications Cleaning materials Equipment purchase, hire & maintenance Essential user mileage Furniture Postage Rail and bus fares Stationery Telephones
Income Budgets – 2.5%	<p>The Council has a considerable number of income budgets which have increasingly come under pressure in recent years due to national economic influences. Normal policy is to assume that income budgets are reviewed annually and will increase in line with price inflation year on year, as a minimum. However, in view of the VAT increase from 4 January 2011, and the fact that there was a freeze on many sources of income from fees and charges during 2010, the Council has implemented a general increase in fees and charges from 4 January 2011 unless there is a rationale not to do so in specific cases. This will avoid the administrative costs of increasing charges twice within 3 months, and include the inflation factor for 2011/12 which has been set at 2.5% in accordance with the Consumer Price Index (CPI) at 30 November (3.3%) and HM Treasury's forecasts for the economy.</p>

Income Generation

Charging Policy and Income Strategy

Income from fees and charges is an important issue for the Council, both in terms of our ability to raise revenue and the contribution it can make towards the achievement of strategic objectives. Fees, charges and trading operations represent a significant opportunity for Councils to raise revenue from discretionary services and contribute towards local objectives. This is particularly important in a financial environment where grants from central government are declining and the ability to raise Council tax is limited.

The Council needs to have in place a robust charging policy and income strategy which provides a framework for how we approach the issue of charging for services provided to residents, local businesses and visitors. The aim is to provide a consistent approach to income from fees and charges across Council services, including a basis for determining concessions to ensure that no individual or group is excluded from accessing services due to their personal circumstances. To that extent the income strategy will address the following issues:

Charging Policy

In general terms, where the Council has a power to charge it will do so, unless there is good reason for an exception to be made. Where the Council has a duty to charge for statutory services it will do so without exception. And where the Council decides to provide a discretionary service a charge will be made to the service user unless a decision is made for an exemption or a concession. The Council's charging policy has been developed to ensure

consistency across Council services, whilst allowing service departments the flexibility to shape the delivery of the policy to meet the specific needs of their customers. Its key aims are as follows:

- To create a co-ordinated approach to charging that is applied consistently across all service departments;
- To define the charges covered by the charging policy;
- To outline the key principles for charging adopted by the Isle of Wight Council;
- To define individuals and groups to be considered for concessions and provide a consistent approach to concessions;
- To set out an annual review process for all fees and charges levied by the Council.

Key Principles – Which Services Should the Council Charge For?

The Council's charging policy is built on six key principles that are applicable to all charges levied, in every department. As stated previously, charges should be made in accordance with statutory requirements and for all discretionary services, and when new services are introduced consideration of charging options should be taken into account. The principles are set out below:

- All fees and charges should cover the total costs of providing the service including overheads and capital financing costs (where appropriate), except for those charges agreed to be exempt. The provision of a subsidy for an individual or group should be a conscious choice;
- Charging should contribute towards achievement of the Council's priorities;
- Where charges are not made for a service, or reduced below total cost recovery level, the reasons should be reconsidered as part of the annual review process to ensure opportunities for significant income streams are not being lost;
- People receiving adult social care community based services will be charged according to the national Fairer Charging Policy which relates an individual's ability to pay to the maximum charge which can be levied under the policy;
- The policy should be simple and easy to apply, avoid generating any additional costs for the Council, and allow service departments the flexibility to shape delivery of the policy to meet the needs of their customers;
- Charges should be reviewed on an annual basis, using clear and transparent data and information as a basis for setting the level of charges.

Income Strategy

The development of local government legislation has given Councils powers to raise charges for the delivery of discretionary services. The Council needs to develop a robust income strategy, taking into account equality of opportunity, social and financial inclusion and ability to pay. The strategy includes a set of 'guiding principles' to be used when setting fees and charges, focussing on fairness and equality, rationale for the charge, and stability and predictability. Key issues for consideration include the following elements:

- Baseline review of all current fees and charges;
- Review of existing legal and financial framework - what can and cannot be charged for and are there limitations on the charge?
- Identify all services where a charge can be made;

- Split between statutory charges and discretionary charges;
- Will the use of fees and charges increase or decrease demand for a service?
- Understanding of cost base and how fees and charges contribute to the Council budget;
- If the charge does not cover the costs should we be providing the service? Why is the service being provided to residents?
- If certain individuals and groups benefit from a differential charge do we know why, how much, and whether any subsidy meets the objectives of the service and needs of the customer?
- Principle of 'those who are able to pay the full cost of a service do so' is adhered to in order to ensure value for money for the Council tax payer;
- Benchmarking comparisons with other councils;
- Where the Council owns assets that are used by third parties for an annual fee (usually via a lease or licence) is the income regularly reviewed and maximised (as part of an overall asset review)?

It is important when reviewing fee and charge levels that the Council's strategic priorities and local objectives are kept in mind, and that fee and charge levels are set to support these priorities.

Levels of Fees and Charges

As part of the budget setting process for 2011/12, the Council commissioned a review of fees and charges to investigate existing sources of income from fees and charges and opportunities for future income generation. The work focussed on three specific areas:

- Existing charges – via a service by service assessment to analyse the likely impact of prices increases on service demand;
- New charges – drawing upon knowledge of income generation practices in other councils, as well as ideas generated by staff in Time 2 Talk sessions;
- Benchmarking – to compare IWC's existing fees and charges with other councils.

The following table identifies the most significant sources of income from fees and charges currently raised by the Council:

Service	2009/10 Actual £	2010/11 Budget £	2010/11 Outturn £
Wightcare Alarms	730,000	700,335	683,050
Licensing	396,000	424,876	406,124
Crematorium	744,000	826,064	835,506
Planning Applications	840,000	643,725	796,017
Parking Services	4,034,000	5,473,388	4,424,071
Local Land Charges	254,000	236,510	301,236
Rents (total for Council)	995,000	1,044,227	1,096,250
Museums & Heritage	370,000	359,513	343,923



Building Control	392,000	426,739	457,269
Cowes Ferry	529,000	655,189	627,505
Leisure Facilities	1,564,000	1,588,613	1,685,200
Leisure Fees and Charges	503,000	472,624	457,557

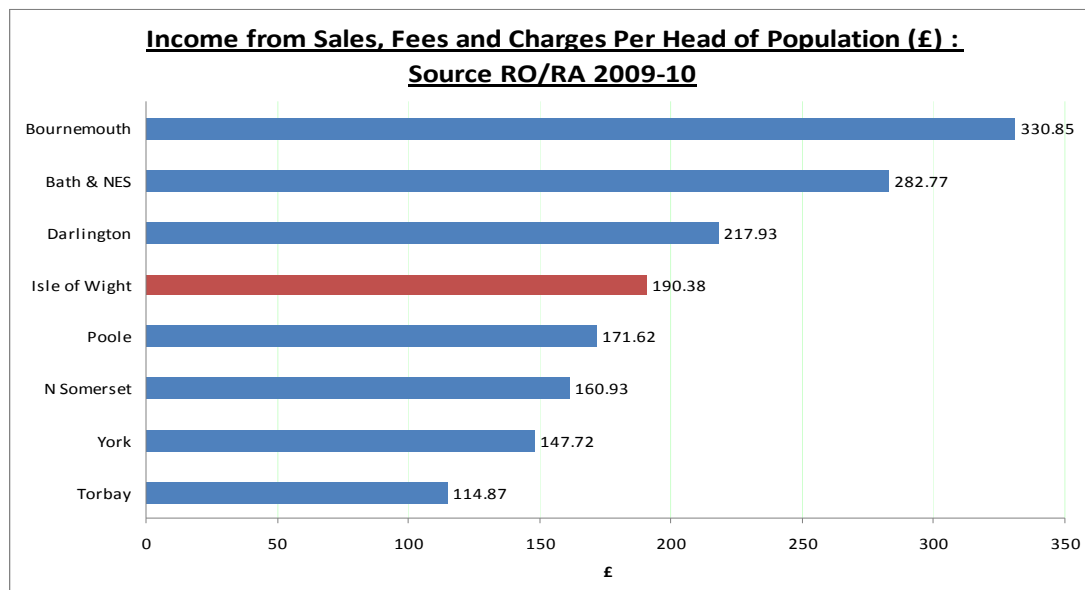
In view of the fact VAT increased from 4 January 2011, and there was a freeze on many sources of income from fees and charges during 2010/11 as a result of the economic downturn, the Council implemented a general increase of 10% from 4 January unless there was a rationale not to do so in specific cases. This approach avoided the administrative costs of increasing charges twice within 3 months, and was anticipated to generate some £320,000 worth of additional income in a full year.

The areas where specific service charges were increased were as follows:

- Charging for social care services – agreed as part of 2011/12 budget;
- Cemeteries and Crematorium – increased fees and charges to match VAT increase only following significant increase last year;
- Planning fees – currently set by statute
- Local Land Charges – ability to charge for this service currently under review at a national level;
- Leisure Facilities/Leisure Fees and Charges – increase of 5% to include impact of VAT increase but with certain charges frozen at current levels.

The review of new charging areas found a number of opportunities for raising fees and charges to cover the cost of providing the service. Further work is necessary to research these charging opportunities with a view to implementing fees and charges in future should it prove beneficial to do so i.e. the benefits outweigh the costs of collection.

A number of benchmarking comparisons have been undertaken across a range of fees and charges to compare income generated by this Council with other local authorities. The chart which follows shows income generated per head of population from RO/RA forms submitted by local authorities to central government for 2009/10. Although income per head of population is not necessarily an appropriate measure to use on a fee by fee basis, it provides a broad comparison of overall income in each local area. The chart demonstrates that the Council's charges are average for the group of authorities chosen. In particular the average fees and charges on the Island are 65% higher than the lowest authority in the group and 74% lower than the highest authority in the group. Further work is being undertaken to benchmark specific fees and charges against a broader group of councils with similar functions to this Council.



Medium Term Financial Plan

Following the Comprehensive Spending Review the provisional individual local authority grant figures were announced on 13 December 2010. The settlement means a total cash grant reduction over the two years of £16.495m equivalent to some 19%. When allowing for inflation, increased service costs and identified need, the real terms grant loss is much higher.

Significantly, the reduction is not spread evenly over the four years but front loaded into the first two. These reductions are also net of the extra £1bn for adult social care and the council tax freeze grant giving an effective real terms reduction in the rest of revenue support grant of 35%.

In addition to the impact of the CSR and the reduction in our grant settlement, the Council is also projecting additional costs of £19.9m over the next four years associated with:

- Increased volume of service need through client and population increases;
- Inflation on existing contracts and committed spend;
- Increase on externally imposed taxes, carbon reduction commitment, national insurance;
- Capital financing ;
- Highways PFI (any additional costs are projected to be more than offset through efficiencies and savings achieved through the new contract)

This takes into account a number of assumptions regarding inflationary pressures:

- Pay freeze over the next two years and an increase of 1% per annum thereafter;
- Supplies and services budgets will be cash limited to 2010/11 levels;
- Key income streams will not worsen further;
- Current year projected overspends/resource shortfalls will not be carried forward as a pressure into 2011/12 other than for adult social care.

In overall terms the budget position for the Council would be:

	Budget		Projections		
	2010/11	2011/12	2012/13	2013/14	2014/15
	£'000	£'000	£'000	£'000	£'000
RESOURCES					
Revenue Support Grant	61,397				
Area Based Grants/other Grants	12,605				
Change in functions			(366)		
	74,002	(10,412)	(5,182)	0*	(4,300)*
Core Grants	9,304	(951)	+45		
	83,306	(11,363)	(5,137)	0	(4,300)
Council Tax (+2.5% +increased base)	71,067	+2,200	+2,150	+2,100	+2,100
Health transfer re. adult social care		+2,130	(80)		
Additional costs		(10,800)	(4,500)	(4,000)	(4,000)
Change in functions			366		
Revenue Budget net of other income	154,373	(17,833)	(7,201)	(1,900)	(6,200)
Savings set out below		17,833	3,606		
*estimated from CSR					

In considering our response to these pressures, the Council recognises that not all of its budget is directly controllable. After allowing for dedicated schools grant, housing and council tax benefits, committed capital financing costs, contractual commitments on contracts and key statutory pressure areas, there is an effective savings base of some £107m.

The £33m projected budget gap therefore translates into a 30% savings target of which half falls in the next financial year.

<u>Reference</u>	<u>Service</u>	<u>2011/12</u> <u>£'000</u>	<u>Full year effect</u> <u>£'000</u>
	<u>Cross Council savings</u>		
C1	Reduction in management costs	6,475	7,250
C2	Communications, performance & partnership	1,250	1,250
C3	Reduction in business infrastructure costs	3,250	3,250
C7	Reduction in the casual mileage allowance	88	88
C8	Further savings in democratic services	110	110
		<u>11,173</u>	<u>11,948</u>
	<u>Economy and Environment</u>		
EE1	Increase of investment in the economy	(100)	(100)
EE2	Closure of tourist information centres	175	200
EE3	Waterside Pool transfer / closure	150	250
EE4	Reduce spend on parks and gardens	200	200
EE5	Reduce maintenance of public toilets	90	250
EE6	Cease direct provision of lifeguards	100	100
EE6.5	Funding for lifeguard training and support	(25)	(25)

EE7	Cease Wight Bus	75	150
EE8	Additional income from Chain Ferry	20	20
EE9	Cease Ventnor & Newport fire station builds	220	500
EE10	Fire control centre merger	125	250
EE11	Additional funding for public transport needs	(100)	(100)
		930	1,695
	<u>Community Well Being and Social Care</u>		
CS1	Removal of direct provision of general care	200	837
CS2	Re-provide in-house homecare	125	464
CS3	Reduce care management costs	80	330
CS4	Adjust adult social care eligibility criteria	1,000	1,600
CS5	Changes to adult social care charging policy	1,500	2,000
CS6	Ventnor Botanic Gardens / Dinosaur Isle	82	325
CS7	Review of library services	350	500
CS8	Review of archives and museums	50	200
		3,387	6,256
	<u>Education</u>		
ED1	Schools advice and support	750	750
ED2	Children and youth related activity	1,300	1,300
		2,050	2,050
	Total savings per final proposals	17,540	21,949
	<u>Provision for redundancy costs and slippage</u>	(574)	
	<u>Unallocated provision from C6 below</u>	(123)	
	<u>Further savings</u>		
C4	Capital financing savings and increased income net of parking and children's carry forward budget issues	50	(750)
C5	Further reduction in costs	450	
C6	Provisional allocation re New Homes Bonus	490	
	Overall net savings Total	17,833	21,199
			+ 3,366

Capital and Revenue Budget Allocations

Capital Budget

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.

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

- (i) The Council's Vision and strategic objectives;
- (ii) The Capital Strategy that will help deliver them;
- (iii) The relationship to the revenue budget strategy and Medium-Term Financial Plan.

Over the next three years schemes have been reviewed and included on the basis of the following classification:

- Children's Services/Schools – projects to be met from specific funding allocations;
- Local Transport and other Capital projects with specific grants;
- We have then considered overall affordability in terms of revenue costs of prudential borrowing and prioritised schemes which are:
 - committed schemes within the already approved capital programme;
 - essential unavoidable projects and costs;
 - key projects directly related to the Council's key priorities;
 - projects such as transformation where savings can be generated.

Capital Programme Analysis	2011/12	2012/13	2013/14
Schools and Childrens			
One School Pathfinder	19,841,059	3,389,020	3,662,470
Schools Reorganisation	15,942,920	8,693,497	1,736,127
Schools devolved capital	3,480,198	0	0
ICS	687,757	0	0
Total Schools and Childrens	39,951,934	12,082,517	5,398,597
Financed by supported borrowing and capital receipts			
Local Transport Programme financed by capital grant	3,930,000	3,625,000	3,442,000
Invest to Save-accom rationalisation etc	5,066,942	1,750,000	0
Financed from capital receipts/savings to meet prudential borrowing costs			
Total funded programme	48,948,876	17,457,517	8,840,597
Other service areas			
Fire service appliances, vehicles and breathing apparatus	979,000	540,000	1,090,000
Leisure Facility Improvement	3,436,303	2,611,726	0
Housing DFG	860,000	860,000	860,000
Housing other	2,080,500	163,000	151,000
Cowes floating bridge	0	0	3,000,000
Property essential works	1,000,000	1,000,000	1,000,000
Cremator replacement	945,000	379,873	0
ICT	535,204	360,000	191,000
Eastern Yar	1,146,000	30,000	0
Traffic management and road safety	362,987	0	0
Waste contract/landfill expansion	0	0	5,000,000
Other schemes	2,067,198	894,000	607,000
Total other schemes to be funded	13,412,192	6,838,599	11,899,000

Financed By			
Prudential Borrowing	-9,773,422	-4,940,615	-2,049,086
Capital Receipts	-1,900,000	-1,000,000	-9,000,000
Leasing and Revenue contributions	-126,770	-154,984	-164,914
Capital grants	-1,612,000	-743,000	-685,000
Total Resources	-13,412,192	-6,838,599	-11,899,000
Total Gross Programme	62,361,068	24,296,116	20,739,597

Council Tax

The strategy has been 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%. Again, 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 and a 2.5% increase was set for 2010/11, with provisional increases of 2.5% for future years.

Within the RSG funding, £650m nationally per annum for four years has been top sliced to enable a council tax freeze to be funded in 2011/12 only. If a council sets its council tax at the same level as 2010/11 then they will receive a grant equivalent to a 2.5% increase. The grant for the Isle of Wight would be £1.788m. If the council sets a council tax increase above zero, it would lose the grant. In our case, as we set council tax at zero we will receive £1.788m in grant.

Revenue Budget

Medium Term Financial Plan per Cabinet 8.2.11	2010/11 (adj)	2011/12	2012/13	2013/14	2014/15
Expressed at Outturn Prices	£000	£000	£000	£000	£000
Planned Revenue Budget (Gross Expenditure)					
Total IWC Base Revenue Gross Expenditure	354,475	354,475	347,483	344,457	346,676
Less Schools Grant	-102,516	-102,516	-102,516	-102,516	-102,516
Less Benefits Grant	-64,395	-64,395	-64,395	-64,395	-64,395
Planned Revenue Budget (Exc. Schools and benefits)					
Base Revenue Gross Expenditure	187,564	187,564	180,572	177,546	179,765
Inflation		969	958	1,154	1,384
Capital Finance		729	1,090	400	900
Demographic Pressures		2,700	2,600	2,600	1,900
Landfill Tax/CRC/NI		1,317	300	300	0
Schools Reorg/Soc Work/Waste		900	0	0	0
Highways PFI		826	-407	-335	0
Adult Social Care Pressures		3,400	0	0	0

Sub-total gross	187,564	198,405	185,113	181,665	183,949
Savings Still To Be Allocated		-17,833	-7,201	-1,900	-6,200
Loss of funding Academies/Sewers			-366	0	0
Planned Gross Spending	187,564	180,572	177,546	179,765	177,749
Base Income	-33,191	-33,254	-33,236	-33,236	-33,236
Total Planned Net Spending After Savings	154,373	147,318	144,310	146,529	144,513
Funding					
Formula Grant	61,397	63,595	58,409	58,409	54,108
Council Tax	71,067	71,452	73,665	75,884	78,169
Special Council Tax Grant	0	1,788	1,788	1,788	1,788
Core Grants	21,909	8,353	8,398	8,398	8,398
NHS Funding of Social Care	0	2,130	2,050	2,050	2,050
Sub total Formula Grant and Council Tax	154,373	147,318	144,310	146,529	144,513

Key Strategies and Frameworks

Transformation Programme

The Transformation Programme is now in its third full year and much progress has been made. Much of the infrastructure is now in place around ICT and resource management projects, rationalisation of buildings has already begun and design plans are in place for County Hall. A number of organisational restructures are underway and are on the path to achieving fewer building costs and reduce staffing levels to match the reduced resources available.

As this work progresses, the size of the project team has been reduced. The nature of the proposed budget reduction changes mean that the transformation project will be absorbed into the wider re-organisation of the Council. The future long term costs of the project will fall significantly as the directorates take responsibility for service redesign and as implemented projects become business as usual.

Capital Strategy

The capital strategy is a high level strategic document which describes the Council's approach to capital investment and asset management for the medium term i.e. beyond one financial year. It documents the principles and framework which underpin the Council's approach to capital investments and expenditure. The strategy is drawn up under the framework provided by the Local Government Act 2003 and its associated regulations taking into account the more recently adopted International Financial Reporting Standards.

The objectives of the Capital strategy are to:

- Pull together the long term, strategic capital investment requirements emerging from individual service strategies, community priorities and corporate objectives;

- Assist in determining priorities from competing requirements and look for opportunities for cross cutting and joined up capital investment across services and with partners;
- Define the Council's approach to resourcing these agreed capital requirements over a period of years taking account of the economic situation, financial prudence and on going revenue affordability;
- Ensure that assets created and funded by capital investment are efficiently and effectively used to support the delivery of the Council's and the community's priorities.

The capital strategy does not directly allocate resources to investment priorities as this is done annually as part of the Council's budget setting process when the 4-5 year rolling capital programme is approved.

The arrangements for implementing the various stages of the capital programme are outlined in the Code of Practice. It describes the procedures operated by the Council for:

- Bidding process;
- Evaluation of bids and prioritisation;
- management, governance and delivery; and
- monitoring and reporting of the programme.

It also provides a detailed timetable and roles and responsibilities.

The detailed 2011-15 capital strategy document will be available from the Council's key document library at www.iwight.com/documentlibrary once this MTFS has been approved.

Income and Charging

The MTFS also includes references to the Charging Policy and Income Strategy of the Council. The Charging Policy establishes the approach to be adopted when setting fees and charges for Council services to ensure consistency across Council services. The Income Strategy identifies a set of guiding principles to be referred to when setting fees and charges, taking into account equality of opportunity, social and financial inclusion and ability to pay. It is a key part of the medium term financial plan, addressing the following issues:

Fairness & Equality	Rationale	Stability & Predictability
F1 - The provision of a subsidy for an individual or group should be a conscious choice	R1 - Statutory fees and charges should be levied in accordance with central government guidelines	S1 - The impact of price changes should be managed over a period of time where the impact is significant
F2 - Concessions for services should be logical to meet the specific needs of client groups	R2 - Fees and charges should contribute towards the achievement of strategic priorities and local objectives	S2 - Fees and charges should be linked to the Medium Term Financial Plan i.e. impact on affordability to service user and

		council tax payer
F3 - Fees and charges to businesses should not provide a subsidy from the council tax payer	R3 - Price should be reviewed annually and set in relation to costs incurred and value to the community	S3 - Fees and charges should generate income to help improve service capacity, improve efficiency and support continuous service improvement
F4 - The Council adopts a tough stance on avoidance of fees and charges and will seek to recover unpaid amounts where it is economic to do so	R4 - There should be a logical approach applied to differential charges for different levels of the same service	S4 - Changes in charges as a result of annual or periodic reviews should be communicated to users as soon as practical
F5 - An Equality Impact Assessment should be carried out to ensure any change does not have a disproportionate impact on any particular group	R5 - As a minimum, fees and charges would be expected to change to reflect the impact of inflation and changes in VAT	S5 - Consultation should take place with users to ensure a sustainable strategy is agreed to optimise income recovery

The detailed Charging Policy and Income Strategy documents will be available from the Council's key document library at www.iwight.com/documentlibrary once this MTFs has been approved.

Asset Management

The Vision and the Corporate Plan set out the overall direction, priorities and outcomes sought for service delivery and improvement. The Strategic Asset Management Plan (SAMP) needs to support and help enable the achievement of these. The Medium-Term Financial Strategy, Value for Money Strategy and strategic office accommodation rationalisation approach agreed by Cabinet also set the scene as to the outcomes that need to be achieved from our asset base.

These relate to a need to respond to the key programmes of change and improvement; to deliver Value for Money from our property portfolio; to unlock the full potential of the assets we own; and rationalise what we have and make what we keep fit for purpose.

The key outcomes from this are to:-

- unlock the full opportunities and value from our Asset base
- identify and dispose effectively of surplus assets
- ensure that the Assets we keep are fit for purpose and enable effective service delivery
- ensure that the Assets we keep are cost –effectively managed and operational costs are minimised
- understand and monitor our costs and demonstrate that we are delivering VFM

The SAMP therefore sets out our overall strategy for delivering these outcomes.

Plans are now agreed for the redesign of County Hall bringing an additional 350 staff into the building and releasing 14 buildings which will no longer be required. The major work on County

Hall will start in summer 2011 and is anticipated to be completed by the end of the financial year. By April 2013 Council staff will be based predominantly in 6 main buildings (County Hall, Seaclose, Jubilee Stores, Enterprise House, Sandown and Westridge). A small percentage of staff may be based in other buildings which will be shared with other public services or using other buildings (e.g. fire stations) as touch down bases as appropriate.

Education

Asset Management Plans (AMP's) are developed by Local Education Authorities in consultation with schools and dioceses. They will provide the information to help local decision-making on capital spending priorities and inform the Department for Education and Skills on capital allocations.

Highways PFI

Under the Highways PFI, all of the Island's public road network will be rebuilt or resurfaced as will every pavement, kerb and cycleway. Most of this work will be done in the first seven years to raise the network to the required high standard and the entire network will then be maintained to that high standard over the remaining years of the 25-year project. In addition, the PFI will cover all bridges, retaining walls and other structures on the highway network. It includes the replacement and maintenance of all traffic signals and the Island's 12,068 street lights and columns. Also included is all street furniture and illuminated bollards as well as the CCTV network and control room which could also remotely operate street lighting both as a security and a energy saving measure.

The Highways PFI will incorporate all verge cutting and weed control, street cleansing and gully and ditch clearance as well as maintenance of car parks and parking meters both on and off-street . It will include callout arrangements for fallen trees and flooding and the enforcement of notices in respect of overhanging hedges and abandoned vehicles. The Council will retain its responsibilities as Highways Authority as well as the overall responsibility for making sure the work is carried out to the terms of the contract. These functions include road safety and education, school crossing patrols and parking enforcements.

In March 2011, final approval was given for the project equivalent to £262.3m in net present value terms (£487m in cash terms).

Procurement

The Procurement Strategy's principal purpose is to set the overall context for procurement and, by building on some current elements of good practice, to map the future developments and likely improvements in the way the Isle of Wight Council approaches its procurement activities as a whole. Delivering quality public services is an overriding objective of Government – both at central and local level. The Isle of Wight Council will actively strive to obtain value for money in the way it spends its available resources, so that it may in turn offer value for money services to the public it serves.



The Council's approach to commissioning and contracting has improved recently with the introduction of the Procurement Board and with the experience gained through the competitive dialogue processes associated with PFI and One School Pathfinder. Our work in developing a new approach to commissioning from the voluntary sector has also won much praise regionally and nationally.

Further considerations are that this recent experience be developed and a core team established to take responsibility for all procurement and contract management with senior staff responsible for ensuring such services are provided taking responsibility for the specification only but using the core team for all other aspects. The impact of this approach would be to bring a number of staff across the organisation together to:

- Reduce management costs
- Develop broader procurement and contract expertise
- Produce better specifications
- Develop tighter contract management that supports the delivery of value for money

Value for Money

The Council has a duty to achieve best value in its activities and use of resources whether they are funded from Council Tax, Government Grant or any other source.

The Council has constrained resources and to deliver the maximum outcomes residents need means being effective in the delivery of services at optimum cost.

The objective of the Value for Money Strategy is to ensure that the Council has in place a framework and the necessary activities and monitoring and review processes that enable Value for Money to be delivered across all Council's services.

This means not only having the necessary foundations upon which Value for Money can be built such as sound financial management procurement procedures, budgetary control, performance monitoring etc., but also having key monitoring information on what things cost, benchmarking, cost comparisons, outcome measurement etc. so that effective decisions can be made.

Risk Management

The Risk Management Strategy and Policy Document and Practical Guide to Risk Management provides the framework for the management of risk across the Isle of Wight Council and guidance to all employees and Councillors relating to their responsibilities in respect of risk management. It informs the supporting processes agreed by the Council to identify, assess, manage, review and report its strategic and service (operational) risks. Strategic risks are reported quarterly to Cabinet and the Audit Committee.

Workforce Related Strategies

Rising customer expectations, the need to deliver joined up person centred services, more effective partnership working and the need to deliver efficiencies and value for money, whilst still responding to the ever increasing inspection regime, means that old solutions are no longer effective. As a Council we need to raise our corporate game to deliver real and lasting change. This means developing a high performing culture, becoming a learning organisation, shifting the focus from service delivery to service transformation and excellence, boosting capacity, maximising the cross fertilisation of ideas, pooling resources and sharing knowledge and skills. The Council's organisational development strategy, refreshed overarching people strategy and workforce development plan set out the underpinning actions that will assist the Council in moving towards being recognised as a high performing authority.

Performance Management

The Performance Management Strategy is an essential document in the delivery of the Council's suite of key strategic plans to set out how services are monitored through a consistent process to improve delivery to residents and visitors. It is the tool by which the Corporate Plan will be monitored and reported internally to Members, officers and staff and externally to residents, partners and central government.

It sets out expectations of Members, Directors, management and staff and provides the strategic links between the Community strategy, Corporate Plan, service plans, team plans and staff personal development reviews in line with the Council's priorities as set out in the Corporate Plan. It is also an essential tool for all managers and those staff involved in collating and analysing performance data, risk assessment, financial management and project progress as it sets out the process and expectations of the Council in its commitment to embed performance management.

ICT

The pace of change within Information and Communications Technology (ICT) is rapid, with new inventions and opportunities appearing almost every day. Whilst much of the technology is unseen and unsung, ICT plays a critical role in helping to improve the delivery of the Council's services and it is important that there is close alignment between services and technical direction of the Council.

By early 2012 the Council expects the implementation of its ICT Strategy to have enabled:

An improved customer journey by:

- Processes and services being delivered more efficiently and effectively, enabling new ways of working

-
- Efficient and effective ICT service enabling improved support of organisational priorities and current systems and services
 - A reduction in the Council's carbon footprint through more efficient use of hardware and reduction in energy consumption

Data Quality Strategy

The Council has a Data Quality Strategy in place to recognise the importance of using reliable data for decision making purposes. Councillors, officers and partner organisations need to feel they can rely on information produced to make sound decisions on spending, service planning and performance improvement. The general public also needs to have trust and faith in the quality of decisions made. Performance information is also used internally to monitor and manage performance, aid benchmarking, set targets and allocate resources.

Treasury Management Strategy

The Treasury Management Strategy is approved by the Council each year at the Annual Budget Meeting in February. The Strategy for 2011/12 covers the following issues:

- Cash Flow (daily balances and longer term forecasts)
- Annual Investment Strategy (including investment of surplus funds)
- Borrowing to finance day to day cash fluctuations
- Funding of capital investments through borrowing, capital receipts, grants or leasing
- Management of debt (including debt restructuring and monitoring an even debt maturity profile)
- Prospects for interest rates and interest rate exposure management
- Managing exposure to risk
- Procedures for dealing with brokers, banks and the Public Works Loan Board (PWLB)
- Minimum Revenue Provision Strategy

The Council has recently taken steps to improve the robustness of the Treasury Management Strategy by ensuring more effective scrutiny of the treasury function through the Audit Committee, including an emphasis on risk management.

The borrowing strategy is primarily based on the Council's capital expenditure plans and the impact they will have on the cash flow position and borrowing requirements. Views on interest rates form a key part of the strategy, but more importantly, the management of risk remains the key objective.

The prime objective of the investment strategy is security of principal sums invested, with consideration being given to liquidity and yield. The Council recognises the importance of achieving a balance between these objectives, but with security of the principal sums having paramount importance.

The current economic climate has had an impact on interest rates, which means the Council receives very low income on its investment in reserves and balances. Interest rates are expected to remain low over the medium term. The cash flow position is actively managed on a day to day basis to ensure that external borrowing is minimised and interest receipts are maximised where possible.

The Council's capital programme is financed by a significant element of prudential borrowing. This will lead to a net increase in the level of long term borrowing outstanding during the period of the MTFS. The revenue implications have been included in the Revenue Budget.

Prudential Borrowing – where appropriate the Council is able to borrow to finance its capital programme, under the regulations of the 'Prudential Code', which came into effect on 1 April 2004 (revised second edition 2009).

Borrowing under the code has to satisfy the test of:

- Affordability;
- Prudence and Sustainability;
- Value for Money;
- Stewardship of Assets;
- Service Objectives;
- Practicality and Achievability.

To demonstrate compliance with the Prudential code, a number of indicators must be calculated. It must be noted that any borrowing will incur interest charges, which will be charged to the revenue account.

To be affordable, there are only three areas where Prudential Borrowing will be undertaken:

- Where it can be clearly demonstrated that as a result of the borrowing, cost savings will arise which at least compensate for the original investment.
- Investment in infrastructure assets
- Essential health and safety and statutory services

The revenue costs of financing supported borrowing are met through a "Minimum Revenue Provision" charge to the revenue account which is a charge based on the cost and the life of the asset in question. The Council considers its Treasury Management decisions and decisions about borrowing to finance capital expenditure as part of a combined approach in its financial planning.

The Council's overall need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). It is important that the Council's net debt is kept within the CFR over a three year rolling period.

The Council's current plans demonstrate this position, as shown in the following table taken from the Annual Treasury Management Strategy:

	Actual 2009-10 £m	Estimate 2010-11 £m	Estimate 2011-12 £m	Estimate 2012-13 £m	Estimate 2013-14 £m
Capital Financing Requirement (CFR)	184.4	194.8	199.3	199.8	207.1
Net Debt	133.2	150.5	159.1	163.3	179.0
Net Debt within CFR	Yes	Yes	Yes	Yes	Yes

Key Resources and Financial Procedures and Controls

Financial Codes of Practice

The rules which govern the Council's financial affairs are set out in the Financial Procedure Rules as part of the Council's Constitution. Reference to the Procedure Rules will provide details of the specific duties and responsibilities of elected members and officers.

Budget Manual

A budget manual for the Council is currently in the process of being produced. However it largely follows the Guide to Local Government Finance Settlement which is available at www.local.communities.gov.uk/finance/0607/simpguid.pdf

Use of balances and reserves

Earmarked reserves represent funds held by the Council for specific purposes. They include unspent allocations of budget held by schools, as well as money for insurance and risk management and to support future capital investment. Such reserves are held to meet future liabilities or spending commitments, as well as promoting good financial management by allowing a degree of flexibility between years. Planned use of these reserves over the next four years will make a significant contribution to delivery of the Council's One Island improvement agenda.

Capital and accounting reserves consist of: the capital financing account representing capital expenditure already financed from cash sources (with the balance of assets financed from long term borrowing); and the pensions reserve which represents the total pension liabilities offset by investment assets held within the Isle of Wight Pension Fund. The change in value in year has arisen as a result of increased values of assets and an actuarial valuation of the pension fund, reducing the amount of the liability.

General balances are required to provide adequate funds year on year to meet any unforeseen calls on the Council's available resources. The position at 31.3.2011 is shown below:

**2010/11 Outturn
Reserves & Balances
Analysis**

	Balance 1 April 2010 £000s	Contributions £000s	Payments £000s	Balance 31 March 2011 £000s
General Fund Balance	7,273	787	0	8,060
Earmarked Revenue	3,015	1,803	-3,158	1,660
Repairs and Renewals Funds	979	55	-170	864
Earmarked Reserves - Services	4,499	659	-2,634	2,524
Schools Balances	780	0	-197	583
Insurance & Risk Provision	2,745	0	-18	2,727
Organisational Change Reserve	0	1,765	0	1,765
Non-insurable Risks Reserve	4,943	1,048	-261	5,730
Doubtful Debts Provision	1,789	1,180	-766	2,203
Section 106 Reserve	1,200	319	-219	1,300
Total	27,223	7,616	-7,423	27,416

Regular updates on balances and reserves are given in the quarterly financial monitoring report to Cabinet.

Annual governance statement

The Council has a statutory requirement to provide an Annual Governance Statement (AGS) which is published with the annual accounts. From 2007/8, the Annual Governance Statement replaced the Statement on Internal Control.

The Council's most recent AGS was approved by the audit committee in September 2010 and regular progress reports are made to the audit committee to demonstrate action being taken to improve any identified weaknesses in internal control.

Closure of accounts

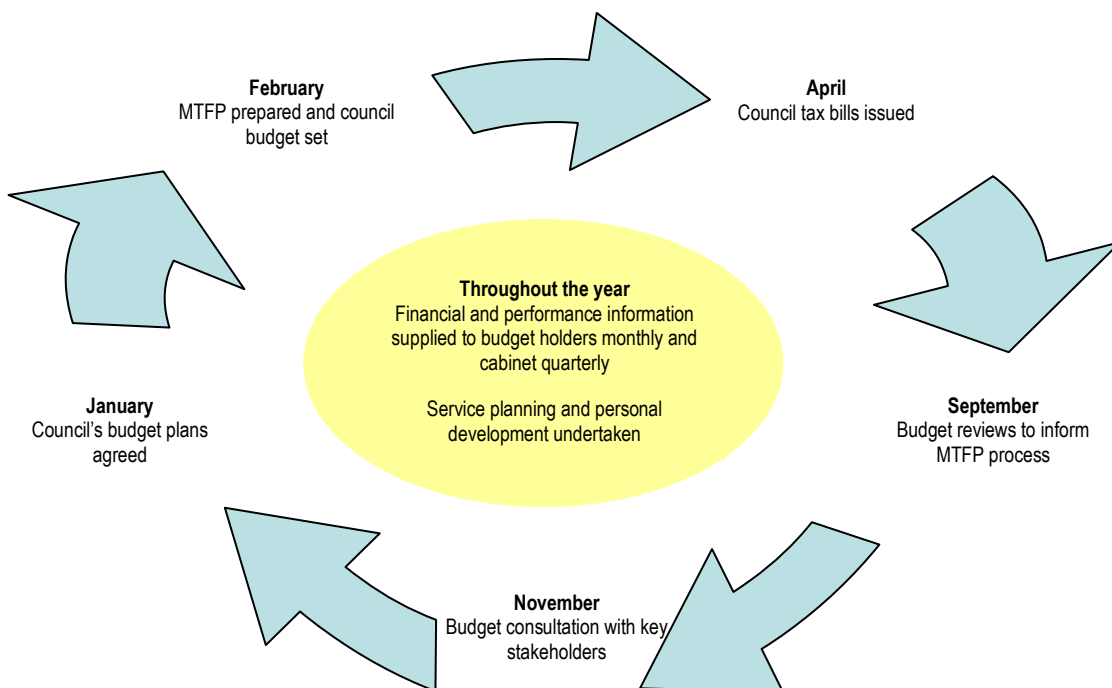
The Statement of Accounts shows the financial performance of the Council in a given financial year and provides details of our finances. Our accounts are prepared in accordance with the Code of Practice on Local Authority Accounting and are subject to an independent external audit each year. The legislation determining the deadline for the closure of accounts is contained within the Accounts & Audit Regulations. The 2011 (Amendment) Regulations require local authorities to have their Accounts approved by the Council as a whole or by a committee with delegated authority by 30th September after the External Auditors have issued their opinion.

Capital programme code of practice

The Code of Practice sets out the processes for developing and managing the Council's Capital Programme on a five year rolling basis. The Code has been drawn up in order to provide a sound framework for developing a strategic approach to the Capital Programme and to ensure the proper consideration and approval of individual Capital Projects and for their effective monitoring, management and delivery. The code links in directly to the project management and reporting framework being developed by the programme office. Key projects will also feature within the monitoring arrangements for One-Island deliverables.

Budget Process

The MTFP is prepared co-terminus with the detailed budget and council tax setting over the period November-March. The current cycle is shown in the diagram below,



The Council consults each year with residents on issues around its budget for the following year.

For the 2011/12 budget a combination of measures were used :-

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- a budget simulator on-line model called You Choose was developed and offered free of charge to local authorities to gain more detailed feedback on priorities
 - A universal workshop was held on 18th November 2010 with local partners and interested groups

The results of all these measures have been analysed and fed into the budget process to influence decisions on resource allocation.

Procurement code of practice

The Council has developed this Procurement and Contracts Code in line with its Procurement Strategy. The Code outlines policy and procedures for the procurement of goods, works and services at the Council. The Code aims to:

- Set out the Council's own rules in relation to procurement and contract management;
- Provide clear and easy-to-read instructions on the procurement process;
- Ensure that the Council complies with EU Procurement Directives and the UK Public Procurement Regulations;
- Protect staff against accusations of bias; and
- Ensure that all contractors are treated equally and procurement takes place in an open and transparent manner.

The Code must be adhered to by all Members and officers of the Council who are responsible for awarding, managing and monitoring Council contracts. Failure to comply with the requirements may result in disciplinary action. It is strongly advised that Schools also follow the rules and related contracting procedures of the Code.

Project management

The Council will ensure that all Programme and Project work is delivered through a robust management regime against an identified and prioritised need. The ability to deliver strategic vision, policies, strategies and plans will be enhanced through the application of a uniform corporate methodology, providing a common language and approach.

Business Effectiveness Unit

In 2011, a new strategic unit has been set up to co-ordinate the activities of business effectiveness, namely performance, risk and project management, value for money, data quality and research and analysis. Working within the Financial Management service of the Council, the unit will be revising and streamlining both strategy and reporting frameworks to ensure business intelligence is at the forefront of decision-making. The strategic functions will cover:

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- Value for money
 - Risk management
 - Performance management
 - Data quality
 - JSNA

Workforce Related Procedures

The launch of the e-induction programme shortly will require all new staff to complete a series of modules which will familiarise them with key facts and information and important policies and procedures. This will compliment workplace induction and the corporate induction event in which staff can be formally welcomed to the Council and to receive information about corporate priorities.

These policies and procedures ensure that the Council is in a position to be able to address its statutory obligations with regard to the local government standard for equality and diversity, consistently across the organisation.

BVACOP, ACOP and IFRS

To ensure all local authorities' accounts are presented on a consistent basis, and to reduce the likelihood of differences in accounting treatment and comparison, local authorities compile their accounts in accordance with the 'CIPFA Code of Practice on Local Authority Accounting' (ACOP). The Accounts and Audit Regulations require the Council to prepare its accounts each year in accordance with proper practices. For these purposes, proper practices means the ACOP and other relevant Codes of Practice and Financial Reporting Standards.

The ACOP is a prescriptive document which specifies the format and content of the Statement of Accounts, as well as identifying a range of accounting policies to be followed depending on local circumstances. In addition to the ACOP, local authorities are also required to comply with the Best Value Accounting Code of Practice (BVACOP). The BVACOP prescribes the format and composition for reporting service expenditure on the Income and Expenditure Account on a Total Cost basis, to allow comparison between authorities and to aid compilation of other statutory external reports.

Local authorities are also required to compile their accounts in accordance with relevant Financial Reporting Standards (FRS) as a key part of the governance framework. From 2010/11 the reporting requirements are linked to International Financial Reporting Standards (IFRS)

Savings Realisation Policy

The full Council is responsible for adopting the budget each year. Once the approved budget is in place, including a savings plan to deliver a robust and sustainable budget as part of the Medium Term Financial Plan, it is the responsibility of the Cabinet to implement it and put in place measures to monitor progress in achieving the budget strategy on a regular basis.

There are real and significant pressures on budgets as detailed in the Medium Term Financial Plan (MTFP) for 2011/12 to 2014/15. This identifies that we have at least a forecast £33m revenue budget gap to be managed over the next 4 years.

However, even that position could change depending on the review of local government finance that the coalition Government plan to undertake during 2011. This means that to be able to afford to deliver services that the island needs, we need to review what we do and how we do it so as to be even more efficient and focused on the priorities over the next 10 years

The outcome of implementing this policy will be the following:

- (a) Avoidance of double-counting savings across services and projects;
- (b) Structured approach to identifying which services have delivered savings through Transformation or Star Chamber prioritisation;
- (c) Any necessary budget cuts in the future can be targeted towards services that have not delivered transformational or star chamber savings;
- (d) Capture of savings at a corporate level to avoid savings being reallocated within services to meet service priorities rather than corporate priorities;
- (e) Ability to capture savings made through process re-engineering against percentages of full-time equivalents (FTE).

The following statements form the core of the policy:

- (a) All savings, whether identified by the corporate centre or by services, are deemed to be corporate savings for purposes of achieving the approved budget strategy and ensuring that resources are directed towards corporate priorities;
- (b) All on-going revenue savings will be transferred from service budgets to a central corporate savings "pot";
- (c) Savings made by a particular service will be attributed to that service within the corporate savings "pot";
- (d) When transformational business process re-engineering outcomes, as agreed by Directors Team, achieve savings of percentages of Full Time Equivalents (FTE), then the budget equivalent to that percentage will be transferred to the corporate pot. The onus will then be on the service area to reorganise to deliver within the remaining budget.

The following statements provide a summary of the process mechanisms by which savings will be realised:

- (a) Creation of a savings opportunity register (owned by the transformation programme) with audit trail for Head of Service agreements;
- (b) Creation of a savings register (owned by Financial Management) to enable control of transfer from the opportunity register to a realised saving;

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- (c) Creation of a single savings code and spend-to-save reserve code within SAP to represent the corporate “pot”;
 - (d) All savings are transferred from service budgets to this cost code at the point of implementing the change or at an agreed date (including percentage savings of FTEs). This will have the effect of ensuring that changes are embedded.

Monitoring and Review

Internal audit and compliance

The objective of Internal Audit is to provide reasonable assurance to the Council and its Section 151 Officer of the adequacy of the control framework in operation to manage the Council’s key risk exposures. Each year a report is presented to the Audit Committee on the work carried out by the Internal Audit Service during the financial year. This report includes an opinion on the level of assurance that can be placed on the Council’s overall control environment. This report is based on the results of audit work undertaken throughout the year, taking account of progress achieved against control and risk issues identified. The report supports the Annual Governance Statement by providing an independent assessment against which the Audit Committee members can consider the statement provided by the Council’s management.

The Council’s internal audit function was contracted out in 2010 and is now provided by PriceWaterhouseCoopers (PWC).

Procurement Board

PB is the senior officer group responsible for overseeing contract letting and management within the Council. PB encourages contract policy development, provides strategic advice, and defines and disseminates best practice. The Director of Corporate Services is the regular Chair of the PB.

PB is made up of the following members:

- Strategic Director of Resources;
- Director of Corporate Services;
- Head of Human Resources;
- Head of Compliance;
- Principal Lawyer;
- Highways PFI Procurement Manager;
- Head of Financial Management.

The Board meets on a weekly basis, the frequency of meetings determined by the workload. The meetings are fully minuted and signed. Minutes are available from the council’s intranet site.

Statement of accounts and Annual Report

The statement of accounts summarises the Council's transactions for the financial year and its position at the year-end. It is prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, based on International Financial Reporting Standards (IFRS). The IFRS aim to standardise financial reporting across countries who have adopted the rules which includes the European Union. For UK local authorities, IFRS compliant accounts were required from 2009/10 with full implementation in 2010/11.

A summary of the statement of accounts is also published in the Council's annual report. This document brings together three key documents:

- The annual governance statement;
- The statement of accounts;
- The best value performance plan.

It also provides an update on the Council's environmental footprint and links all 4 sections into the eco island themes and priorities.

Transparency and Openness

The new coalition government has announced new requirements for local authorities to encourage greater transparency and openness. These include the publication of:

- Details of spending above £500;
- Senior officers salaries;
- Councillors expenses;
- Minutes of meetings;
- Data on service provision such as rubbish and recycling rates.

The Isle of Wight Council already publishes much of this information but from January 2011, details of spending above £500 have been published via the Council's website.

Budget management

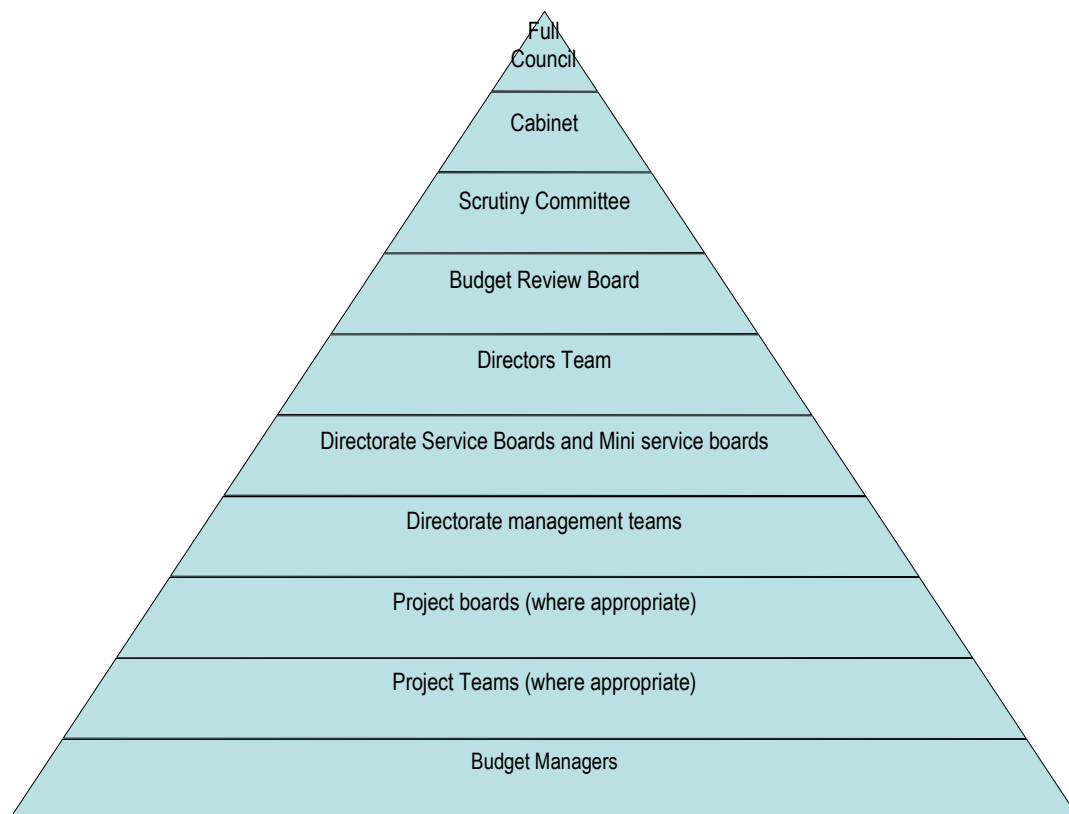
The Council's system of financial management and budgetary control includes the examination of relevant financial issues at quarterly service boards and monthly mini service boards. As such, senior management of the Council have a direct involvement in discussions about financial management on a routine basis. 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.

Audit inspection and audit letter action plan

The annual audit inspection and audit letter issued by the Audit Commission provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit and inspection of the Council, and from an analysis of the Council's performance and its improvement over the year. The letter is presented to the September 2009 audit committee .

Reporting Structure

Regular quarterly reports to scrutiny, cabinet and full council are at the top of the reporting framework which is summarised below:



Service Boards were successfully piloted and introduced in autumn 2007 to enable the key elements of business effectiveness and finance to be discussed on a monthly basis within directorates. This also enabled collective agreement on action to be taken to improve service performance and to prepare and agree information to be presented to Cabinet and Scrutiny.

Monthly Mini Service Boards are held by Heads of Service/Strategic Managers with their management teams to discuss and agree actions on performance, risk, finance and projects for their services similar to the process for Directorate Service Boards. These discussions may be



stand alone, or form part of regular management team meetings. The resulting minutes from Mini Service Boards will act as evidence that business effectiveness and finance are regularly discussed at service level and subsequent actions/decisions taken, therefore the retention in a central place within Directorates and services is imperative for future access by inspectors.

The role of **Budget Review Board** is to ensure the delivery of the Council's savings strategy and approve remedial action in year to deal with any delays or shortfalls which could put at risk the Council's overall budget strategy.

Sustainability Accounting and Reporting

The Council continues to develop its approach to sustainability reporting and the use of our annual report to report each year. We will be considering how we can widen the scope of our reporting to include financial and non financial information covering recognised key drivers in the areas of economic, social, environmental and governance.

In developing this approach we will select areas to report on, based on known requirements, combined with a view of our local areas of greatest risk, impact and value. These relate particularly to the Council's own strategic priorities and the priorities identified by the ISP.

Benchmarking

Monitoring changes in performance over time, and comparing our performance with other Local Authorities, is an important part of understanding where we are now, and where we will be as an organisation in the future, if trends continue.

The National Indicator Set (NIS) introduced in 2008 are compared to the top and bottom quartiles of other authorities each year, however a new national performance framework is due for release by the coalition government in 2011.

Copies of all the documents listed in the MTFS are available from www.iwight.com/documentlibrary

A Glossary of Terms is available by following this link:

http://wightnet2000.iow.gov.uk/directorates/finance/finance_business_services/General_Information/jargonbu.asp