

Quick guide to budget and council tax setting for 2009-2010

How Isle of Wight Council is funded

The funding for the provision of local services comes from four main sources:

- £ The amount the council raises in council tax. The council collects the council tax not only for itself but also on behalf of Hampshire Police Authority and local parish and town councils. In 2008/09, the £65.9 million relating to the council element contributed around 20% of our annual gross budget. Each 1 percent increase in council tax provides an additional £660,000.
- £ Grants from central government. The council receives around £212 million or 67% percent of its funding for services from the government which includes £155 million as specific and dedicated schools grants. The remainder of the grant funding can be used flexibly by the authority to support locally determined priorities.
- £ Income from fees and charges, e.g. car parking and leisure activities. Some fees such as planning fees are set nationally and cannot be changed; others such as car parking can be set locally. The council raises £41 million from fees and charges that make up around 13% percent of our budget.

Last year the council also agreed to use £5 million of its reserves to fund services making up around 1.5% of the budget.

How Isle of Wight Council prepares its budget

In developing its budget, the council has to account for a number of factors;

- the council's vision and strategic objectives as outlined in the eco island strategy
- the results of the budget consultation and other residents surveys - Each year our residents' survey enables us to develop projects under the 'One Island' programme that tackles the sort of issues that matter most to residents and this budget setting survey offers residents and other key stakeholders an opportunity to have a say on our budget for the following year.
- the medium term financial plan - This considers changes to the budget including bids for increased spending on services, additional external pressures, and savings from improved performance or reductions in services. These may be prompted by government legislation placing new duties on local councils, or else by feedback from the public asking for better services or different priorities.
- the medium term revenue and capital strategies that should enable the council over time to redirect those resources it has, to its strategic objectives and priorities for improvement;
- the overall deliverability of the strategy including maintaining a sustainable level of reserves and balances and meeting legal and financial constraints in order to agree a legally and financially sound budget and council tax level;
- the requirement to set a balanced budget and in doing so ensure that it meets its statutory duties in relation to provision of services and in any changes it introduces.

Additional Pressures

There are a number of economic factors relating to the 'credit crunch', depressed housing market, and increased costs and inflation that are having, and will continue to have, an impact on the costs the Council incurs in delivering services and the income it receives from fees and charges. These increases in costs and reduced levels of income are not offset by any additional grant funding from Government, in fact in real terms the level of grant funding has been reduced.

The Isle of Wight Council therefore faces serious financial pressures along with most other local authorities and indeed residents. We have to be mindful of this wider situation when setting our budget which is why your feedback is so important to the budget setting process.

Some of the main pressures are described briefly below:

The national concessionary travel scheme applies to travel between 9.30am and 11pm on weekdays, weekends and bank holidays for residents aged 60 and over or those with an eligible disability. However, following consultation with residents, the Isle of Wight extended the island scheme to:

- 24hrs for eligible persons, and to those who accompany them for reasons of assistance including non island residents
- free rail travel on the island to eligible users and those persons who accompany them
- free bus and rail travel during peak and off peak times for island residents suffering severe and enduring mental illness.

This has resulted in an unprecedented number of concessionary journeys which we forecast will cost the council an additional £800,000 each year.

Partially due to the increased numbers of concessionary bus journeys, we are forecasting car parking income falling by £1 million.

Increases in landfill tax will cost an estimated additional £320,000.

Due to the drop in the housing market and changes to the purchase process we are forecasting a reduction in income from land charges of £300,000.

Similar forecasts for planning applications and building control fees estimate a reduction in income of £610,000.

Increases in the costs of learning disability transitions are expected to total £500,000 next year.

Increases in the demand for older peoples support are forecast to cost an estimated £440,000.

Leisure facility income is forecast to reduce by an estimated £100,000 in 09/10.

Increases in fuel costs are estimated to be £267,000.

Inflation on the provision of community care services is forecast to cost an additional £1.3 million.

Possible Savings/Additional Income

The council is working hard to reduce its costs in a number of ways, including delivering annual savings targets and making savings on procurement (purchasing of goods and services) as well as other business systems and processes.

The Cabinet has sought to secure the best possible value for money for Island residents by:

- finding savings that do not involve cuts to front-line services,
- not increasing the fees and charges that are set by the council. Any such increases may be counterproductive as income from these areas is in many cases falling already and could be further affected by increases passed on to users.

Savings intended for 2009/10 include:

The council's senior management structure has been reduced saving £500,000.

Savings from insurance procurement £234,000.

Forecast transformation savings from improved business systems, processes and supplies £970,000.

Forecast savings from the rationalisation of our property portfolio £200,000.

However, the impact of the current economic downturn is that the Council's planned disposal programme is being significantly delayed and this could be affected.

The Capital Budget

The council's capital budget covers large items of spending such as new buildings, roads or major pieces of equipment and is funded from 5 sources:

- supported capital expenditure (revenue) (SCE) amounts are allocated by central government and represent an amount of borrowing that government will support in order to finance the capital programme;
- prudential borrowing can be taken over and above SCE where the capital financing costs are met from revenue budget savings or directly from council tax;
- the council receives capital grants and contributions from a number of sources. These are usually for specific items of capital expenditure and come with specific conditions attached;
- capital receipts are obtained from the sale of capital assets such as property. These receipts are held corporately and are used to fund capital projects;
- contributions can be made from the revenue budget of a service towards their capital programme. However pressure on revenue budgets means there is limited opportunity for such support.

Due to the economic downturn, the level of capital receipts available to fund capital spending this year has fallen from an expected £5.5 million to just £1 million. This reduction is expected to continue into next year and the medium term future. This will mean cutting back on the planned capital programme for this year and limiting the capital programme for 2009/10.

What this means for 2009/10

The council provides a wide range of services and is facing a difficult decision because the funding available to us from the sources outlined previously, does not cover the budget and the additional pressures that we face. This leaves us with a funding gap of £11.9m in 09/10.

	Current Year	2009/10	2010/11	Total Three Years
Estimated increased net costs	+ £17.8m	+£18.0m	+£13.0m	+£48.8m
Total met from Government (fixed 3 years)	+£3.2m	+£2.4m	+£2.3m	+7.9m
Council Tax plus inflation	+£2.6m	+£3.7m	+£3.4m	+9.7m
Budget Gap	£12.0m	£11.9m	£7.3m	£31.2m

The funding gap identified here can be met from a combination of use of balances, efficiency savings and savings from reductions in services. The levels required for the council to balance its budget are shown below.

Use of Balances	£5.0m	£3.9m	£1.3m	£10.2m
Required Savings	£7.0m	£8.0m	£6.0m	£21.0m

Setting the Council Tax

Last year the council's strategy for the council tax increase was to be in line with inflation as measured by the retail price index at September in the previous year. For 2008/09 this was 3.9%.

The ongoing budget strategy assumed increases of 3.5% in 2009/10 and 2010/11, however inflation has increased well above this - as at September 2008, inflation as recorded by the RPI was at 5%.

The possible level of increase in council tax for all local authorities is limited by a Government set 'capping limit'. Last year the capping limit was 5% but the Government has not yet announced the limit for 2009/2010. However of more concern to the council is the impact the council tax rise will have on residents.

Income available from a council tax increase of 3.9% in line with last years increase is compared below with alternative increases:

The table above shows the additional income received from an increase in council tax at 3.9%. Should council tax be increased at more than 3.9%, the income received will increase by a further

	£
Increase council tax by 4.5%	396,000
Increase council tax by 5% in line with inflation	726,000

Consultation

The council is keen to hear your view about what the council should and should not be doing in the future and, in particular, wants to hear the public's view on how they think the Cabinet should shape the final budget proposals for 2009 -2010. You are invited to give us your views on priorities as part of this consultation exercise at the focus group outlined in the invitation letter.