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Agenda

Name of Meeting	CORPORATE SCRUTINY COMMITTEE
Date	TUESDAY 10 JANUARY 2023
Time	5.00 PM
Venue	COUNCIL CHAMBER, COUNTY HALL, ISLE OF WIGHT
Committee Members	Cllrs R Quigley (Chairman), C Quirk (Vice-Chairman), D Adams, W Drew, J Lever, M Lilley, J Medland, J Robertson, P Spink
Co-opted Members	Cameron Palin (IWALC) (Voting)
	Democratic Services Officer: Megan Tuckwell democratic.services@iow.gov.uk

7. **Draft Budget Proposals 2023-24** (Pages 3 - 6)

To discuss the principles behind the 2023-24 budget.

9. **Economic Recovery** (Pages 7 - 12)

To monitor the actions being taken with regard to the delivery of the key activity identified in the Corporate Plan.

CHRISTOPHER POTTER
Monitoring Officer
Friday, 30 December 2022



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If you require more guidance on the Code of Conduct or are unsure whether you need to record an interest on the written register you should take advice from the Monitoring Officer – Christopher Potter on (01983) 821000, email christopher.potter@iow.gov.uk, or Deputy Monitoring Officer - Justin Thorne on (01983) 821000, email justin.thorne@iow.gov.uk.

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Questions from the Corporate Scrutiny Committee regarding the Draft Budget Proposals 2023-24, and responses:

Qu.1: Is the Leader confident that the Council can deliver a balanced budget for 2023-24?

The Council's Director of Finance has indicated that he believes that the Council will be able to deliver a balanced budget for 2023-24. He has cautioned that there remain many uncertainties relating to additional cost pressures and also the level of funding that will be received to offset those cost pressures. Whilst a balanced budget is achievable, it is by no means certain that the Council will be able to achieve "structural budget balance" (i.e. that in year spending matches in year funding) and the Council may have to rely on the use of non-recurring funding sources such as Reserves in order to balance the budget. This means that there is a realistic prospect that in order to balance the budget, the Council may have to reduce its overall level of financial resilience through the reduction in reserves set aside to provide cover for known and unknown risks.

Qu. 2: Given the uncertainty of the impact of the cost of living crisis and level of Government funding what changes will have to be made to the current Medium Term Financial Strategy?

The overall level of future savings may change that the Medium Term Financial Strategy will need to deliver but the strategy itself will maintain it's core aim as follows: *"In Year" expenditure matches "In Year" income over the medium term whilst regenerating the Island Economy and providing essential Value for Money services for our Businesses and Residents*". The 6 Core Themes embedded within the MTFs are:

<u>SHORT TERM</u>	
Theme 1	Create Financial and Operating Capacity to Transform
Theme 2	Increasing Efficiency and Effectiveness
<u>SHORT TO MEDIUM TERM</u>	
Theme 3	Entrepreneurial, Commercial and Collaborative Activities (with managed risk)
Theme 4	Withdraw from or offer Minimal Provision for Low Impact Services
Theme 5	Improving the Island Economy
<u>MEDIUM TO LONGER TERM</u>	
Theme 6	Public Service Transformation

As part of the forthcoming Budget for 2023/24 the Council has been advised by the Director of Finance that it will need to increase its planned savings from £2m to £3m. Additionally, the Council will need to mitigate and ration the amounts that have been requested by Services to meet additional cost pressures to the absolute minimum of unavoidable cost pressures. Services have requested increases of £20m but funding for cost increases of just £12m is available.

Qu. 3: What virements have had to be undertaken during 2022-23 between budget headings and how will this be taken into account for budget planning purposes for 2023-24?

During 2023/24 the following amounts have been transferred from the Council's contingency to deal with in year cost pressures:

- Children's Services, Education & Lifelong Skills - £2.0m
- Impact of the Pay Award being - £2.7m
- Adults Social Care - continued impact of Covid - £2.1m
- Leisure - continued impact of reduced income following Covid - £1.0m

All budget pressures relating to the current year and 2023/24 have been captured as part of the requests from services to increase their Budgets for next year by £20m

Qu. 4: The quarterly performance report shows that savings are being made in the year as a result of staff vacancies. Will the budget proposals for 2023-24 take into account a full staffing establishment to ensure that there is capacity to deliver services at the required level?

Budgets are prepared to deliver "steady state" service provision and Budgets are only reduced if savings proposals are accepted the budget process. Where appropriate and reliable, some services can operate with a "vacancy factor". A vacancy factor only exists where there is sustained historic evidence that full establishment is not achieved and any associated saving is not required for some form of backfill.

Qu. 5: A number of authorities have already indicated that they would need to issue a section 114 notice. Is this something that has been looked at by the Leader if there is no increase in the level of funding?

It is the Council's Director of Finance that has the statutory responsibility to issue a S.114 Notice to the Council. He has indicated that the Council will be able to deliver a balanced budget for 2023-24 although this may lead to an overall reduction in the Council's financial resilience. As set out in the response to Question 1, he has cautioned that there remain many uncertainties relating to additional cost pressures and also the level of funding that will be received to offset those cost pressures. Also that there is a realistic prospect that in order to balance the budget, the Council may have to reduce its overall level of financial resilience through the reduction in reserves set aside to provide cover for known and unknown risks.

Qu. 6: What is the level of reserves that the Council is expected to retain for 2023-24 in terms of revenue expenditure and what is the logic behind that level?

The Council's forecast estimated that General Reserves would reduce to £9m in 2023/24 (being just £2.0m above the minimum level). This year's budget process has been approached on the basis that the Council will deliver a "Balanced Budget" and maintain General Reserves at £9m. As set out in the response to Qu. 2, that will require the Council to make £3m of Budget Savings and to allocate additional funding to Services of circa £12m for unavoidable cost pressures versus the requested £20m of additional funding from Services. Even at this stage there remain a number of cost and funding uncertainties which is why the Council's Director of Finance has cautioned that there is a realistic prospect that in order to balance the budget, the Council may have to reduce its overall level of financial resilience through the reduction in reserves.

Qu. 7: Has the current budget enabled delivery of all the key priorities for 2022-23, shown in the Corporate Plan and is it expected that the draft budget proposals will also enable the continued delivery of all activities or will amendments be required?

The current budget has enabled the council to progress its key priorities shown for 2022/23. Whilst many have progressed and been delivered, the timescales for delivery of some priorities have changed due to both internal and external factors. Delivery of priorities has been tracked through the quarterly performance management report. It is good practice to review the corporate plan alongside developing budget proposals so that activities can be linked to both financial resource and capacity and given the savings and budget pressures discussed in response to earlier questions the level of activity and therefore the corporate plan is likely to require amending.

Qu. 8: What is the impact upon capital schemes as the result of increased rates of interest?

Many schemes within the Capital Programme are approved to be funded by Prudential Borrowing subject to the approval by the Council's Director of Finance following preparation of a financial appraisal that demonstrates that the scheme can deliver savings or additional income sufficient to cover the borrowing costs. The cost of borrowing has now increased which will require the necessary savings / income generated by the investment to be higher. Schemes within the Capital Programme are therefore likely to be stalled. Housing schemes in particular which were intended to be funded by part borrowing and part cash were already challenged even prior to the interest rate rise.

Qu. 9: Is there a current strategic plan for each service and will these have to be reviewed to reflect the financial situation?

Each Service prepares and maintains a Service Plan. Those Service Plans are generally prepared and budgeted for on the basis of providing "Steady State" levels of Service. Service improvement or transformation is general funded from additional funding allocated through the Budget Process via the Revenue Budget, Capital Programme or Transformation Fund. Consequently, Service plans will need to be re-considered in the context of the financial parameters set out at the Annual Budget Meeting in February.

Qu. 10: Is there a clear identification of risks and actions needed to minimise risks arising from budget or service reductions?

As is normal, any indicative savings proposals presented to full Council will include an impact statements, have regard to any necessary consultation as well as Equality Impact Assessment.

Qu.11: What are the key risk areas for the budget?

Section 25 of the Local Government Act 2003 ("the Act") requires the Chief Financial Officer to report to the Council on the following matters:

- The robustness of the estimates included in the Budget made for the purposes of setting the Council Tax; and
- The adequacy of proposed financial reserves.

This Statement sets out the key risks and routinely includes:

- Inflation

- The continuing impact of the Covid-19 pandemic, its impact on costs, Council Tax and Business Rate income levels
- The general uncertainty surrounding Business Rate income including "Material Change of Use" and the extent of successful appeals and mandatory reliefs, all of which affect Retained Business Rates
- Government Funding levels (including the outcome of the Fair Funding Review and the Business Rate Retention scheme review)
- The ability of the Council to continue to make the necessary savings at the required scale and pace
- The likely demographic cost pressures arising in demand driven services such as Adult Social Care, Children's Services and Housing
- The extent to which new policy changes will be funded (e.g. those arising from the Care Act).
- The Council's Reserves and the extent to which they are consistent with the Council's financial risks over the medium term

Qu.12: Will performance measures help influence budget allocation?

In general yes since the Council is obligated to provide services in accordance with statute and will endeavour to remain within statutory levels and budget accordingly.

Qu. 13: How can uncertainty be accounted for in the budget?

Budget Savings proposals are only included within the Budget if they have a reasonable expectation of delivery. Speculative proposals are not put forward for consideration. The Council maintains a Corporate Contingency for known liabilities of uncertain timing and uncertain amount as well as making some provision for "unknown unknowns"

General Reserves are available to be used as a last resort in the event of an unplanned "financial shock" where no other funding source would be available. In the event that the minimum level of General Reserves is breached, a plan must then be made and implemented to restore General Balances above the minimum requirement within the same financial year. The Council's overall financial forecasts and resulting savings requirements are prepared to take account of alternative scenarios (or "stress testing") such that the forecast future savings requirements are not the subject of significant variability in the event of a "financial shock". As an example, the exceptional inflationary environment and cost of living crisis currently being experienced has led to an increase in the savings requirement for 2023/24 from an originally planned £2m to a revised £3m.

Qu. 14: Do policies exist on such issues as savings, overspends or underspends, when were these last reviewed and are these widely known?

Financial Regulations form part of the Council's Constitution and tend to be reviewed on an annual rolling basis. The Council's Medium Term Financial Strategy sets out the broad financial framework within which the Council operates.

Qu. 15: How will any demographic changes be accounted for within the budget?

As set out in Qu. 3, all cost pressures, including those relating to demographic changes, have been captured as part of the requested £20m of additional funding requested from Services but for which just £12m of additional funding is available. Funding will be allocated to those cost pressures that are absolutely unavoidable and are unable to be mitigated or rationed in a responsible manner.



Committee report

COMMITTEE

CORPORATE SCRUTINY COMMITTEE

DATE

10 JANUARY 2023

TITLE

ECONOMIC RECOVERY

REPORT OF

DIRECTOR OF REGENERATION

SUMMARY

1. The Corporate Plan 2021-25 highlights economic recovery as one of its 3 key overarching priorities. This is in recognition of the challenges faced by the island as we emerged from the pandemic. The challenge has now become arguably more important in light of the cost of living crisis and the impending recession.
2. The existing IW Economic Strategy 2019-2021 is now being reviewed. Work is underway to update the economic profile which will provide evidence of the how the island economy has changed as a result of COVID, Brexit and other issues, since the previous profile in 2019. As well as economic data, the evidence base will also include a business survey to assess the views of local businesses and what they see as their key challenges and issue going forwards. The survey is planned for Spring 2023.
3. In the response phase of the pandemic the IWC provided over £100m in direct financial support to island businesses in order that they could survive. The economic recovery is how we continue to support and grow businesses, jobs and investment in the face of these continued challenges.
4. Sustainable economic growth and a vibrant local economy are vital to the quality of life, health and well-being of our communities. It also helps provide and deliver the services the island needs. The council is working with the Centre for Local Economic Strategies (CLES) on Community Wealth Building which is how we retain the value created by our economic function so that more of the wealth and opportunity it provides is for the greatest benefit to local people. This is becoming more important in the context of the current challenges.

BACKGROUND

5. Prior to the pandemic, the IW Economic Strategy 2019-21 reflected a local economy that had shown resilience as it emerged from the recession earlier in the decade. The corporate plan identified those positive signs and the role of sectors such as composite and marine manufacturing in raising wages and productivity whilst recognising the vital role that the tourism and care sectors provide alongside the challenge of lower wages.

6. The impact of the pandemic has been wide ranging, creating both opportunities for new business growth and development (work from home/anywhere) as well as challenges for traditional sectors such as retail and hospitality.
7. The current economic strategy has 3 key components:
 - Strategic Sectors and growth- fostering enterprise, driving productivity, promoting sustainable development and inward investment
 - Skills and Employability-addressing labour market requirements, training and employment needs, productivity constraints and promoting a strong skills base
 - Infrastructure and connectivity-delivering strategic infrastructure and sites such as Island Technology Park (ITP), Newport Harbour, Building 41, gigabit island and future broadband.
8. Some of these have been completed (Building 41, ITP) or are in development (Newport Harbour). The council has established a Skills Board with key partners and approved a Skills Plan to address skills and employability issues. These are both ongoing and changing and can be reviewed in the new strategy.
9. This committee has set out a number of lines of enquiry in regard to the economic recovery:
10. When will the Economic Strategy be evaluated and by whom?

The islands Economic Development Board (EDB) which includes representation from the Chamber of Commerce, Federation of Small Businesses, Visit IOW and the IW College is tasked with overseeing the development of the strategy and monitoring its key actions. It is likely the new strategy will cover a further three year period with annual monitoring and evaluation of its actions. This will include updates to the Scrutiny Committee for Regeneration and Neighbourhoods.

11. How does the plan account for changes in policy and direction at national, regional and local level?

The strategy would normally set out key objectives for the plan period alongside a more detailed action plan. The delivery of the actions will be led by different agencies (learning providers, business representative bodies, Solent LEP, Visit IOW etc.) and will depend on budget, resources and priorities. The regular monitoring of the plan by the EDB will ensure that as priorities change or new initiatives emerge, the action plan can be reviewed and updated to reflect this.

12. What work has been carried out to understand where current, and future, strengths and weaknesses lie in the islands economy?

The new economic profile and business survey will provide the qualitative (survey) and quantitative (data) evidence to enable agencies to ensure that resources are being focussed on the key challenges faced. The island economy has historically had structural issues relating to productivity which are difficult to shift when key sectors such as care and tourism are dominant. The challenge is to grow sectors with higher wages and productivity, such as marine and composites, whilst maintaining skills and staffing in areas such as health care and hospitality.

13. To what extent do our island needs align with the Government's priorities and missions on levelling up?

Whilst the strategy needs to focus on the issues facing the island economy it must recognise national and regional priorities. The challenges facing the council in meeting its statutory service needs means that without aligning with government funding opportunities, it is unlikely to be able to resource the activities it needs to undertake. The council has recently been successful in accessing £1,063,636 of UK Shared Prosperity Funding (UKSPF), and £536,049 of Rural England Prosperity Funding (REPF) but only on the basis that the expenditure at the local level aligns with government priorities set out in the grant funding guidance to help deliver the national levelling up agenda. The council was also successful in being awarded £666,594 to deliver additional adult numeracy courses local people against nationally set criteria under the governments Multiply programme.

14. How do our economic development plans fit together with our plans on transport, housing, skills, and other areas?

The councils plans and strategies range from comprehensive documents such as the Island Planning Strategy (IPS) to more specific pieces of work such as the IW Skills Plan. The development of such plans within the council is subject to wide ranging engagement and consultation with key service areas to ensure they are not developed in isolation. The approval process for key plans and documents, includes input from service consultees on their alignment with the key corporate plan objectives, including the economy.

15. How do our plans fit together with the plans of our partners, including those who we might not immediately identify as partners with a stake in this issue?

Consultation and engagement with outside bodies is vital to ensure development and ownership of the plans' objectives. Whilst some bodies and groups are easy to identify and engage with, the challenge is often around those that are more hard to reach. For example, it is important to achieve meaningful engagement with young people when developing plans or activities which directly impact on them, such as apprenticeship programmes. Engaging with organisations that directly work with and provide services to young people such as the IW College or the IW Youth Trust helps ensure that their issues and views are taken onboard.

16. What has been the impact on economic recovery with the things that have been achieved so far and have they delivered on what they were supposed to achieve?

The following is a summary of some of the activity relating to economic recovery (not exhaustive) over the period since the Corporate plan was approved in October 2021:

a) Building 41

As part of Innovation Wight, the council, together with European Regional Development Funds (ERDF), has established a new co working facility at the BAe complex in Northwood. "Building 41" has been completely refurbished to provide both office and meeting space for businesses alongside the delivery of courses to help new companies establish and grow. It will also enable agencies such as DWP, SLEP and others to engage with island business and become a hub for business support. The leasing and renting of space to individual companies will generate income to sustain its operation beyond the ERDF resources which end in

September 2023 with a continuation of delivery via UKSPF. First formal occupation of the office spaces is expected in January 2023.

b) Branstone Farm

Branstone Farm, a former IWC owned education centre, has been redeveloped as a mix of affordable housing, business units and a new brewery and visitor centre (Goddards Brewery). The site was recently awarded construction project of the year by Business South. The site which has 42 homes has recently received its first tenants and the chamber of commerce will be one of the first occupiers of the business units. The site also has a new open green space as part of a project which generates new homes and jobs in a template for sustainable development.

c) Kick Start Apprenticeships

The “kick start” programme was introduced and funded by government in 2020, recognising the disproportionate impact the pandemic would have on young people seeking work. A range of services across IWC developed 42 roles enabling some 80 opportunities for young people to be created (6 months paid employment) some of whom have been employed in other council roles or have gained experience enabling them to enter and compete the jobs market. The Chamber of Commerce coordinated a similar programme for small private companies. The scheme has contributed to significantly lower rates of unemployment in 18-25's. Pre pandemic (November 2019) the IOW rate was 4.4% representing 465 claimants of job seekers allowance. By November 2020 that had reached 11.5% (1,030 claimants) but as of October 2022 it was 4.5% (400 claimants).

d) Low Carbon Across the South East (LoCASE)

The council has been working with a consortium of local authorities in the South East (led by Kent CC) to help businesses become more competitive and profitable alongside protecting the environment and encouraging low carbon solutions. LoCASE is funded via the ERDF (£5m) and provides grant funding of up to 40% (maximum £20,000) towards energy efficiency, for example, the installation of solar panels (PV) on business premises. LoCASE also offers similar business development grants for those companies operating in the green economy. The project not only provides the opportunity to support local companies via grants but also enables engagement on wider business needs where they can be signposted to assistance from other agencies including the Solent LEP.

e) Venture Quays (Levelling Up Fund)

The council were granted £5.8m from its successful bid to the first round of the Levelling Up Fund (LUF) to bring forward the regeneration of East Cowes Waterfront and create a new marine hub for the island. The project includes the refurbishment of the Columbine (Union Jack) building and the former Victorian barracks, as well as public realm improvement at Albany Green. The council is still awaiting governments decision on LUF2 bids, which for the island is targeted at transport, where the proposal is for a new “green corridor” between Ryde and Yarmouth enabling people to leave their car at home and travel on foot, bicycle or bus.

f) Kingston Marine Park (KMP)

The council acquired this site on the river Medina from the Homes and Communities Agency (now Homes England) who had failed to bring forward the site due largely to environmental constraints on accessing the water. The council has recently resolved to dispose of the site to enable its development for film studios. The proposal will regenerate this strategic employment site and create up to 1,000 direct, sustainable, high value jobs - from camera, lighting, sound and production teams to personnel, catering, location and transport teams, plus designers, carpenters, plasterers, electricians, scaffolders. It will also provide considerable spin-off economic growth in the local travel, hospitality and other sectors. It also presents the opportunity to showcase and market the island for film tourism with the likelihood that many more island locations and venues will appear in film productions.

g) Nicholson Road, Ryde

The council achieved planning consent on its 15ha business park site in Sep 2020 for a mix of employment, retail housing and community uses with supporting infrastructure and has since been marketing the site. With a lack of commercial interest, the next step is the development of a business case in order to demonstrate its viability and provide the basis for seeking funding to support its delivery.

h) Ryde and Newport Heritage Action Zones (HAZ)

HAZ are a £95m government funded programme led by Historic England to secure lasting improvements of our historic high streets to enable their economic, social and cultural recovery. The island has been awarded two HAZ projects in Ryde and Newport and the IWC is working with local businesses, business associations, town councils and other partners to develop and deliver projects which help create vibrant town centres. Activities include public realm enhancements, design guides, cultural events and a focus on bringing significant historic premises back into use. In Ryde, the project has helped secure a further £2m of grant funding from the DCMS Cultural Development Fund. This will enable the refurbishment of the former Packs department store in Cross Street which is already occupied by Shademakers with artists, makers and others in residence. The grant is aimed at helping it become a state of the art cultural resource for the whole island.

BACKGROUND PAPERS

17. IW Economic Profile 2019
18. IW Economic Strategy 2019-21
19. IW Regeneration Strategy 2019-30

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