



Purpose: For Decision

# Full Council Report

Date	<b>22 FEBRUARY 2023</b>
Title	<b>BUDGET AND COUNCIL TAX SETTING 2023/24 AND FUTURE YEARS FORECASTS</b>
Report of	<b>THE LEADER OF THE COUNCIL AND CABINET MEMBER FOR STRATEGIC FINANCE, TRANSFORMATIONAL CHANGE AND CORPORATE RESOURCES</b>

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## EXECUTIVE SUMMARY

1. The Budget setting process for the forthcoming year has been one of the most challenging experienced by the Isle of Wight Council. The financial environment changed rapidly through 2022/23 precipitated by the war in Ukraine, the existence of practical full employment in the economy and the strains on international supply chains due to continuing Covid lockdowns. This, coupled with the more local legacy impacts of the Covid pandemic and resulting pressures on the health system and Council Services more generally, has led to a high cost / high demand environment which the Council alone did not have sufficient financial resilience to be able to respond to.
2. Since May 2021, the Alliance Group has sought to understand and respond to the many challenges the Council faces to deliver a positive future for the Island and its community. The Alliance's stated priority is to work together openly with the community to support and sustain our economy, environment and people.
3. The Administration's aspiration for the Council's spending plans remains to reverse the annual cycle of cuts in the Council's budgets and reinvest in the services the community would like to see. However, the Council's financial challenges are significant as set out in this paper with costs increasing at a level significantly in excess of funding, requiring the Council to find consequent savings of £93m over the past 12 years.
4. The pace and scale of recent economic events originating in the current year has led the Council to experience estimated unplanned cost pressures of circa £20m, representing over 12% of its overall net Budget and a ten-fold increase in the level of planned savings for 2023/24 (originally £2m).
5. The Council's costs rose at a pace that without Central Government intervention in the Autumn Statement and the Local Government Finance Settlement would have exhausted all of the Council's financial resilience and

leaving the Council exposed to a "Structural Budget Deficit" (i.e. in year underlying spending exceeding in year underlying funding) that would have required immediate and drastic cuts to services.

6. The seriousness of the situation exposed the Council's vulnerability to a financial shock necessitating the Council's S.151 Officer advising the Council in the following terms on 28 November 2022:

*"The Council should not implement any new Policy Decision that increases the Financial Burden on the Council or draws on Revenue or Capital Reserves" and further that "The Council should take decisions that improve the Council's financial position"*

This advice was provided in order to protect the ongoing delivery of vital Council Services on a sustainable basis. It was also provided to demonstrate that the Council could evidence rationality in its decisions in that any decision was being taken in the context of the wider cost and demand pressures that the Council had yet to resolve.

7. At the Full Council meeting of 18 January 2023, a report on the Local Council Tax Support Scheme for 2023/24 endorsed by the Cabinet was considered. It recommended that the Council expressed its preference to increase Local Council Tax support for working age cases to 70% from the current maximum level of 65% subject to it being affordable to the Council and therefore considered alongside (and part of) the Council's overall Budget for 2023/24.
8. Contrary to the advice of the S.151 Officer and the exceptional organisational context within which the Council was operating, an amendment was put to the Cabinet's recommendation which sought to express a "preference to increase the maximum level of (Council Tax) support for working age cases to 70 per cent (from the current maximum level of 65 per cent)" but specifically disregarding the affordability of such a preference and thereby adding £0.3m to the Council's substantial Budget Deficit.
9. In the view of the S.151 Officer, the aspiration to provide additional support to those residents that are least able to pay is entirely understandable. However, a disregard of the Council's financial capacity to do so and the organisational impact on service delivery is an example of poor financial governance. The Council must be cognisant that the rationality of decisions made in such circumstances would be a key consideration should the Government ever be minded to commission a Best Value inspection of the Council.
10. In this regard, it is imperative that in considering the Budget for 2023/24 any proposals (including amendments) are mindful of the Council's overall financial capacity and the ability to continue to deliver services on a sustainable basis. Good financial governance requires that any proposals that are made are only considered following proper due diligence involving sufficient analysis and evaluation of risk and legality. Failure to do so will put the Council at risk.
11. This report brings together the totality of all the decisions required in order to present a legally "Balanced Budget" for 2023/24 as well as setting out the level of uncertainty and financial vulnerability the Council faces both in 2023/24 and

future years. This is the context in which the Council is able to consider increasing the Council's Budget deficit and what service reductions it could make in order to accommodate any additional financial burdens.

12. To fund the additional financial cost of raising the level of Council Tax Support from 65% to 70% is £0.3m. The Administration have prepared its Budget Proposals to accede to the Council's preference and in order to do so have extended the scale of its originally planned Organisational Re-design savings. The scale of the re-design was originally planned to deliver £0.9m in savings and requiring a reduction in activity in some discretionary areas by between 30% and 50%. This has now been extended to £1.2m with a consequent impact on the scope and scale of the review. The review will now encompass discretionary activity across all service areas of the council including back office support for service delivery.
13. The key proposals within this report are for a balanced Budget for 2023/24 which provides for:
  - The full financial impact of the extra-ordinary inflation and associated demand related cost pressures experienced over the past year and extending into 2023/24
  - The ongoing impact of the Covid Pandemic in the current year and its expected ongoing legacy over the next 3 years
  - £3.9 of savings in order to meet:
    - i) The Council resolution of 23 February 2022 - £2m
    - ii) The extra-ordinary Budget Pressures that have not been met through additional Government Funding or Council Tax and that the Council has been unable to mitigate - £1.6m
    - iii) The financial impact of the Council's preference to increase the maximum support to the Council's Local Council Tax Support Scheme - £0.3m
  - A Council Tax increase of 4.99% (2.0% of which is raised specifically to be passported to Adult Social Care)
  - Increased spending in Adult Social Care of £7.6m being greater than the funding provided by the Adult Social Care precept and the additional Social Care Grant from Central Government
  - Increased spending in Children's Services of £4.3m
  - A forecast for the 3 year period beyond 2023/24 which will require a further £6.0m in savings or £2.0m p.a. (remaining the same as the Council's previous forecast)
  - New Capital Investment on the Island of £15.0m
  - Despite the extra-ordinary costs associated with inflation and demand arising from the "Cost of Living Crisis", a Medium Term Financial Strategy delivering "Structural Budget Balance" for 2023/24 without reliance on the previous £7.0m p.a. "holiday" from debt repayment or General Reserves

- To achieve "Structural Balance" a need to implement a substantial Organisational Re-design during 2023/24 with a consequent reduction in Council activity and therefore a substantial rationing of the Council's priorities set out in the Corporate Plan
  - Future years' deficits arise mainly from forecast demographic and inflationary pressures in Care Services not matched by funding increases
  - A level of General Reserves over the period of the 3 year forecast above £11.9m (but recognising the substantial uncertainty faced by the Council over that period).
14. Inflation as measured by the Consumer Price Index (CPI) peaked in October 2022 at 11.1%, the highest level in over 40 years and driven largely by rising electricity and gas costs and to a lesser extent food costs. Inflation is currently tracking at 10.5% and alongside the consequent impact this has on the cost of living for residents and therefore demand for Council Services, is the single largest challenge to the Council's Budget for 2023/24. The Office for Budget Responsibility, the advisors of Government for the purposes of policy setting, are forecasting that CPI will remain high at an average of 5.5% for 2023/24 and then falling to 0% for 2024/25. As described in the main body of the report, inflationary cost increases outstrip the rates of increase in funding, causing a "structural gap" between spending and funding.
15. The Council is still feeling the legacy effects of the Covid pandemic. The Council's essential care services in particular continue to be impacted at a cost of £2.5m. Caseloads in Children's Services have remained at elevated levels which has required the Council to maintain, and now embed, increased Social Worker capacity; the payments made to providers of Adult Social Care placements have also remained at the increased (but unsustainable) levels paid through the pandemic and the pandemic itself has led to an overall increase in clients requiring residential care. Income from fees and charges has also not recovered to pre-pandemic levels, with substantial income losses being experienced in the Council's Leisure Centres of £1m but coupled with reduced parking income of £0.25m. Whilst the continuing legacy cost of Covid is expected to amount to circa. £8.9m, Government funding for the pandemic has now ceased.
16. This Council's Covid contingency was established to provide a good level of surety that the Council will be able to continue to deliver all its essential services as well as being able to respond to the continuing Covid pandemic and its legacy after effects. The proposed Budgets for 2023/24 onwards have been prepared on the basis of delivering services at pre-pandemic levels i.e. the "steady state" (except where savings are proposed as part of this report). Some of the legacy Covid costs relating to care services have now been embedded within the Council's Budget from 2023/24 and are a component part of the Council's £20m of unplanned Budget Pressures which are addressed as part of the Administration's Budget proposal. For those remaining legacy Covid costs that are likely to reduce over time (i.e. are not "structural"), these are planned to be met from the Council's Covid Contingency. At present the Covid Contingency is forecast to be £4.2m at the end of 2023/24 but fully utilised over the following 2 year period to cover care related costs.

17. The substantial financial impact of inflation itself, the driving impact that this has had on the cost of living for residents and the consequent increase in demand for Council services has been the defining factor in driving the £20m of unplanned cost pressures facing the Council for 2023/24. This, coupled with the cost of the legacy impact of Covid at circa. £4.7m for next year, has presented the most significant challenges in seeking to balance the 2023/24 Budget.
18. Central Government have provided some relief for the extra-ordinary inflationary and demand pressures faced by the Council. This amounts to £6.2m in terms of additional grant funding and a further flexibility to increase Council Tax by an additional 2% amounting to £1.9m over and above the existing Council Tax limits.
19. In contrast to the £8.1m of additional funding (see above), the Administration are proposing to increase spending in Adult Social Care and Children's Services by £11.9m to ensure that the financial position of these services remains robust both in the short and medium term. It is however recognised that the legacy of the Covid pandemic will continue to pose risks to the budgets of Adult Social Care and Children's Services.
20. In terms of funding to the Council, the coming year will see a Business Rate re-valuation which presents a degree of risk to the Council's retained Business Rates. Individual rateable values of Businesses on average have increased by 7.3% nationally. At the national level, the effect of revaluation is intended to be neutral with any increase in Business Rates generated from the revaluation being offset by a reduction in the Business Rate multiplier. At the local level for the Council, retained Business Rates are also similarly adjusted to attain neutrality however, the Council can be affected positively or negatively by the extent to which successful business rate appeals exceed the national average assumed at 3.2%. This presents a risk to the Council's Budget and Budget Forecasts.
21. Local Government Funding Reform has been delayed once again and will now not take place until the financial year 2025/26 at the earliest, this was intended to be Government's vehicle for evaluating and allocating funding for the "Island Deal" in respect of annual funding for Council Services. Funding reform covers the following:
  - The "Fair Funding Review", (to determine a new formula methodology which will set each Local Authority's baseline funding level and creating "winners and losers")
  - The Retained Business Rates system, which involves the removal of all existing growth retained to date (amounting to £10m) and re-distributing that growth nationally according to relative need (rather than where it was generated).
22. Government have confirmed that the additional £1m allocated to the Isle of Wight Council in the current year in respect of the costs of physical separation from the mainland will continue into 2023/24. The Council has been continuing to work with Government throughout this year to provide further evidence beyond the 5 studies that concluded that, even at the lower range of estimates,

the additional costs to the Council of providing Services are at least £10m per annum. Government have committed to further engagement over the next financial year to inform the Local Government Finance Settlement for 2024/25.

23. The Council's Future Forecast has been estimated in the context of the uncertainty set out above. For the 3 year period 2024/25 to 2026/27 it is estimated that the Budget Deficit will be £6.0m. This requires the Council to make incremental budget savings of £2.0m per annum for each of those years. The Forecast Deficit is predicated on assumed Council Tax increases of 5.0% for 2023/24 and 2024/25, representing 3.0% for general purposes and 2% for Adult Social Care, with increases reducing to 3.0% per annum in total thereafter.
24. The most significant risks to the Forecast Deficit of £6.0m are the extent to which:
- i) Elevated levels of inflation will persist and the consequent price and demand pressures that result
  - ii) Unavoidable cost pressures may arise, particularly in Care Services
  - iii) The level of successful business rate appeals arising from the revaluation in 2023/24
  - iv) The impact of the Local Government Funding Reform described above (and the extent to which it accommodates any "Island Deal").

Taking these risks together, the Forecast Deficit has the potential to vary by between +/- £5m, which when spread over 3 years, would vary the annual savings requirements by +/- £1.67m per annum.

25. During this unprecedented level of uncertainty, it is imperative that the Council continues to plan for savings of £2.0m per year in the future, retaining the Covid Contingency and General Reserves at the levels proposed in this report so as to retain the necessary financial resilience to be able to respond in all circumstances.
26. Capital funding is particularly constrained for 2023/24, previously relying on contributions from the Revenue Budget which have been unavailable due to the imperative to meet the substantial cost of inflationary pressures experienced during the year. The Capital Programme makes proposals for new Capital Expenditure of £15.0m, of which £5.4m is provided from Corporate Capital Resources but which levers in external funding amounting to £9.6m.
27. Key additional investments proposed in this Capital Programme include:
- £2.1m for Road Safety (A3056)
  - £2.0m for a Ryde Cultural Venue
  - £1.0m for adaptations to disabled residents' homes to enable them to remain in their own homes
  - £0.7m to provide additional temporary accommodation for people presenting as homeless whilst permanent accommodation is being sought
  - £0.5m for a fuel poverty grant scheme for vulnerable residents

- £0.5m for vehicle fleet replacement to electric vehicles
- £0.4m for Coastal Protection

28. The Council's proposed Budget for 2023/24 will inevitably carry substantial risk as the uncertain inflationary environment continues and the demands on Council Services, particularly in the Housing and Health and Care sectors remain. The current financial environment and the pace at which £20m of unplanned Budget Pressures arose has exposed the inadequacy of Council's overall financial resilience, making the compelling case for an increase in both General Reserves of at least £1m and an increase in the Council's Corporate Contingency of £0.5m. It has also highlighted the importance of the Council's MTFS that seeks to gently increase General Reserves over time.

29. An Executive Summary of these key points and others is set out below:

## **EXECUTIVE SUMMARY**

### **Context**

- ❖ Since 2011/12, savings of £93m will have already been made (over 40% of controllable spend) due to the combination of government funding reductions and increasing demographic cost pressures
- ❖ Adult Social Care and Children's Services represent more than 60% of controllable spend, provide services to the most vulnerable, experience the greatest cost pressures, are the hardest in which to manage demand and have historically received significant protection from savings - resulting in proportionally higher savings across other Council Services
- ❖ The financial environment has changed dramatically over the past 9 months with inflation peaking at 11.1% during the year, the highest in over 40 years but funding levels have not kept pace (e.g. Council Tax increases of up to 5%)
- ❖ The Council's Medium Term Financial Strategy (MTFS) continues to deliver necessary savings through income generation, economic regeneration and efficiency measures before considering service reductions as a last resort
- ❖ The Council continues to operate in a climate of uncertainty created by existence of extra-ordinary levels of inflation, cost of living related increases in demand for services, the legacy of the Covid pandemic and the forthcoming reform of the Local Government Funding system.

### **Revised Budget 2022/23**

- ❖ A Balanced Budget for 2022/23 but including a contribution from General Reserves of £0.1m
- ❖ Provision for Covid costs and income losses as follows:
  - Adult Social Care - £2.1m
  - Leisure Services - £0.9m
  - Car Parking - £0.2m
- ❖ Provision for forecast overspendings (excluding Covid related costs) as follows:
  - Children's Services - £3.5m
  - Adults Social Care - £1.9m

### **Budget 2023/24**

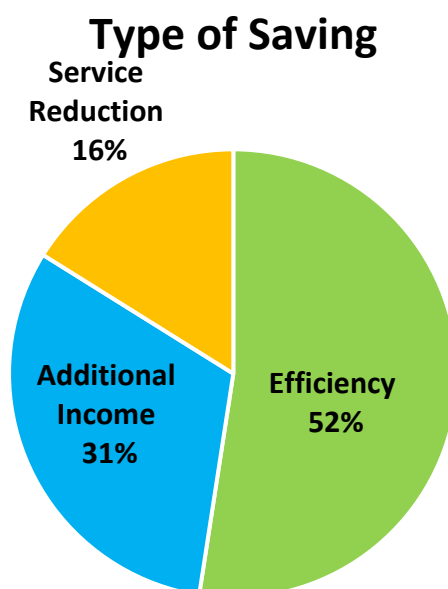
- ❖ Planned in accordance with Medium Term Financial Strategy (MTFS), containing an interdependent package of measures to achieve financial balance and sustainability over the medium term (see below)



## EXECUTIVE SUMMARY (Continued)

### **Budget 2023/24 (continued)**

- ❖ "In Year" Spending is aligned with "In Year" Funding and "Structural Budget Balance" has been achieved but at the expense of £3.9m of budget savings; future years deficits arise mainly from forecast demographic and inflationary pressures in Care Services not matched by funding increases
- ❖ Total Savings of £3.9m (£4.5m in a full year) necessary to meet the extraordinary costs of inflation, demand related budget pressures and a reduction in Council Tax of £0.3m arising from the preference to increase Local Council Tax Support from a maximum of 65% to 70%
- ❖ As part of the Total Savings, a proposal to implement an organisational re-design anticipated to reduce non statutory activities by over 30% to 50% in some Services
- ❖ 84% of the £3.9m Savings are delivered through Efficiencies and Income Generation and 16% achieved through service reductions. This analysis is presented as follows:



- ❖ Additional Spending in Adult Social Care of £7.6m (to cover the uplift in the National Living Wage of 9.7% that will be passported to care providers as well as all other cost and inflationary pressures)
- ❖ Additional Spending in Children's Services of £4.3m (to cover inflation, additional social worker capacity and the rising costs of children looked after and Home to School Transport)
- ❖ An inflationary uplift for all Services in order to maintain "steady state" provision amounting to £6.8m (excluding Adult Social Care and Children's Services above)
- ❖ Additional Government Funding of £6.2m for 2023/24, with £6.3m provided for Social Care but a cut for all other services of £0.1m (plus no funding for inflation for other services which is running at over 10%)
- ❖ A Council Tax increase of 4.99%, of which:
  - 2.99% is for general council services (at lower than inflation which peaked at 11.1% and is currently at 10.5%)
  - 2.0% (amounting to £1.9m) is to be passported directly to Adult Social Care

## EXECUTIVE SUMMARY (Continued)

### Budget 2023/24 (continued)

- ❖ An overall "funding gap" between Adult Social Care and Children's Services unavoidable costs of £11.9m and the funding available of £8.2m (i.e. **2% Adult Social Care Council Tax Precept of £1.9m plus additional Social Care Grants of £6.3m**).
- ❖ Estimated draw down from the Covid contingency of £4.7m
- ❖ General Reserves remaining at £11.9m

### Future Forecast - 2024/25 to 2026/27

- ❖ The new forecast for the new 3 Year Period (now extended to 2026/27) is a £6.0m deficit
- ❖ Potential for the "Forecast Deficit" to vary between +/- £5m due to the considerable uncertainty associated with inflation, unavoidable cost pressures that may arise (particularly in Care Services), business rate appeals arising from the 2023/24 revaluation and the forthcoming Local Government Funding Reform
- ❖ At this stage no allowance has been made for the proposals in the Levelling Up and Regeneration Bill currently passing through parliament relating to additional Council Tax income from empty properties and second homes, which could amount to up to £5m for the Isle of Wight Council from April 2024
- ❖ Future forecasts provide for some modest contributions towards future necessary Capital Investment requirements but do not provide for the replenishment of the Transformation Reserve, making the recommendations to use any additional funding received / year end savings for these purposes absolutely critical to the success of the MTFS
- ❖ Proposed Savings are further "smoothed out" and phased evenly at £2.0m p.a over the next 3 years (i.e. commencing 2024/25)
- ❖ General Reserves are maintained over the period at not lower than £11.9m (**assuming the £2.0m p.a. savings are achieved**), providing a modest level of headroom to be able to respond to the risks associated with the future cost and funding uncertainty
- ❖ Balanced approach to savings if the forecast proves to be too pessimistic or too optimistic. With General Reserves at proposed levels, savings of £2.0m p.a. ensure that for any improvement in the forecast, the Council has not prematurely made a level of savings that could have been avoided and for any deterioration, good progress towards the necessary savings will be made.

### Reserves

- ❖ The minimum level of Reserves required by the Council based on its risk profile, and crucially the savings proposed within this report, is £8.0m, which it cannot fall below
- ❖ The minimum level of Reserves of £8.0m is predicated on retaining a Covid Contingency of £4.2m for years beyond 2023/24, should that Fund be reduced then the minimum level of General Reserves will necessarily need to increase
- ❖ A planned draw from Reserves in 2022/23 of £0.1m
- ❖ There is no requirement to draw on General Reserves in 2023/24
- ❖ Reserves in 2023/24 maintained at £11.9m (providing "headroom" of just £3.9m above minimum levels) and rising gently to just £12.3m by 2026/27 but at a time when the risks of the Fair Funding Review and Business Rate "reset" will arise
- ❖ Planned Reserves at £11.9m for 2023/24 represent just 2.9% of total gross expenditure

## EXECUTIVE SUMMARY (Continued)

### **Capital Programme**

- ❖ Total proposed new Capital Investment of £15.0m including:
  - £2.1m for Road Safety (A3056)
  - £2.0m for a Ryde Cultural Venue
  - £1.0m for adaptations to disabled residents' homes to enable them to remain in their own homes
  - £0.7m to provide additional temporary accommodation for people presenting as homeless whilst permanent accommodation is being sought
  - £0.5m for a fuel poverty grant scheme for vulnerable residents
  - £0.5m for vehicle fleet replacement to electric vehicles
  - £0.4m for Coastal Protection
- ❖ Looking forward, there remains a substantial "Capital Gap" between funding and Capital Investment needs.

### **Conclusion**

- ❖ "Structurally Balanced" Budgets for both 2022/23 and 2023/24
- ❖ Financial volatility (inflation and demand for services) is likely to continue into 2023/24
- ❖ Council's financial health is currently fragile but stable and the proposals provide for a level of financial resilience that will enable the Council to be able to respond in all but exceptional circumstances
- ❖ Future uncertainty for Local Government funding remains a substantial risk.

## **ALLIANCE GROUP - PREFACE**

30. The Alliance Group has retained a strong focus on understanding and dealing with the many evolving challenges faced by the Council, our residents and businesses over the past year. Many of these unforeseen issues have arisen as a direct result of the illegal invasion of Ukraine by Russia followed by the resulting spiral of utility, commodity and distribution costs.
31. Despite all the mounting pressures, we have been able to maintain Council Services and to prioritise support for our growing elderly population, Island children and those with limited incomes where the impact of the events have been most sorely felt.
32. The Administration's aspiration remains to reverse the annual cycle of cuts in the Council's budgets and reinvest in the services the community would like to see. However, the Council's financial challenges are significant as set out in this paper and impacted by 12 years of Central Government austerity measures coupled with unfunded additional cost pressures. Whilst Government continues to underfund our Council by larger and larger margins, we must increasingly prioritise our spending on core statutory services as required by law. The amount available to support discretionary, and yet important services, continues to decline sharply.
33. Our commercialisation journey has and will continue to be impacted by the coronavirus pandemic for the foreseeable future and contingent funds continued to be allocated to maintain impacted services. In all around £8m of reserves were channelled over the past year to support our unforeseen pressures and hence to maintain core services. Our work to reduce and manage the Council debt has resulted in us paying less interest and the savings have been channelled to operational priorities.
34. There is no denying the impact of the inflationary pressures and growing demands in adult social services and children's services which, without additional government funding, have left us increasingly impoverished. Whilst some incomes have increased by raising charges for services we provide, these are not sufficient to cover the rising costs, and substantial cuts have therefore been made and other programmes delayed.
35. Notwithstanding all of the challenges, our priority remains to minimise any impact on front-line statutory services. Where it is prudent to do so, existing reserves will be applied to accelerate change with better commercial practices, economies and structural reforms.
36. This budget is consistent with the Council's objective to be financially balanced, sustainable and responsible.

## **ADULT SOCIAL CARE AND PUBLIC HEALTH**

37. Adult Social Care has always been an area of the Council's business with high expenditure, importantly caring for the health and well-being of Islanders. The Council has historically sought to protect this area from being impacted by the statutory requirement to make savings against declining budgets and this year is no different. Our budget focuses on ensuring that care and support can continue to be provided to people, at a good and high standard, when and where they need it.
38. Despite the negative economic impacts and ever reducing government grants, our 2023/24 budget seeks to create opportunities in a changed operational environment. We are repurposing funding and investing where we can into essential council care home facilities and services. We are working hard to be creative and our staff are innovating and imaginative, ensuring that local people are supported effectively and to a very high standard. ASC staff have all become experts at stretching the pounds to ensure we provide the best value, safe and purposeful services.
39. The planned improvement works for the essential Adelaide and Gouldings re-enablement facilities continue to be funded in the budget and should commence in the year having been delayed because of their key role in responding to the coronavirus pandemic. These works will secure the future of these locally important facilities for many years to come.
40. The ring-fenced public health grant enables a focus on prevention of ill-health and improvement in overall wellbeing. The importance of this part of the Council's responsibilities has been well demonstrated in its response to the covid-19 pandemic and will continue to be important for a long time to come. The budget will focus spending on the greatest causes of ill-health this includes substance misuse following the national drug strategy announcement with a focus on hard-to-reach individuals, supporting recovery, communities and peer support networks.
41. The Council's mental health work will focus on those at risk, ensuring their needs are addressed through education and interventions working with the voluntary and community sectors. We have strengthened the importance and impacts of our mental health Champion.
42. Physical health is equally important so the focus on improving people's health will be within a holistic approach including sexual health, healthy diet, physical activity and smoking cessation.
43. It is important for our Island to have a needs led approach and hence the role of HealthWatch and feedback from our voluntary services is pivotal. The individual and collective public voice really matters to our administration in putting Island Peoples Health and Well-Being First.
44. We have continued support for Cross Solent Patient Transport and have been transparent in our approach to the impacts of declining government grants. The movement of health services off-Island, particularly chemotherapy and

radiotherapy, was at the time agreed to be matched by NHS funding so that Island patients were not disadvantaged. Sadly this solemn undertaking by the NHS continues to be unfulfilled.

45. Our staff in all areas are highly valued and there are many changing concepts of health and we are at the cutting edge of what is required to be changed as we move forward in this and future years. Regrettably, our budget has reduced overall and that has led to some very challenging decisions which have tested us all but are necessary to be able to continue and to protect the statutory functions in keeping people safe, healthy and secure.

## **CHILDREN'S SERVICE, EDUCATION AND LIFELONG SKILLS**

46. Our Family Hubs, commissioned through Barnardo's, have been held up as an exemplar of best practice nationally. This is part of our Early Help delivery strategy to provide support to families at the earliest possible stage.
47. Through our transformation programme we are working hard to increase our base of in-house foster families by running campaigns for fostering recruitment through our Fostering Recruitment Hub.
48. Through the Household Support Fund and Connect4Communities, and working with local community groups, we have successfully set up and are supporting 3 Community Pantries with work ongoing to continue this work across the island. This will enable islanders to have local access to a weekly provision of fresh, frozen and store cupboard ingredients at an affordable cost and also to be signposted to additional support services.
49. We have run a successful pilot of the Primary Behaviour Service, supported by our Hampshire partners.
50. All of these strategies are designed to provide help at the earliest opportunity to avoid costly interventions further downstream.
51. However, our statutory duties to safeguard children remain and are a priority for us. We have increased our Children's Social Worker capacity during Covid and have embedded this into our standard practice model to strengthen the Children's Safeguarding and Assessment teams. CAST teams also now include a participation lead. This investment has now been formalised into the budget.
52. Our school rebuilding programme bids have seen success in the delivery of the Yarmouth new build, ahead of schedule, in addition to significant investment at the Bay CE School and Hunnyhill Primary. We continue to submit strong bids to ensure that our school buildings provide the best possible environment in which our island children can learn.
53. In addition to this, we have submitted a strong bid submitted for a 75 place special school. We already have a potential site identified.
54. The children's services budget therefore incorporates a plan for now and a plan for the future.

## CLIMATE CHANGE, ENVIRONMENT AND HERITAGE

55. The Council will continue to invest in and accelerate its climate and environment strategy and would expect to make significant strides over the year. Almost £3.2m of external investment will be spent on providing low carbon heating, insulation and renewable electricity. This will significantly reduce the Council's carbon footprint as well as reducing energy bills.
56. The Mission Zero Steering Committee and a number of the proposed Hubs are now in existence to drive and assist the community and local business to transition to and take full advantage of a low carbon economy. An Island Wide EV charging strategy is being developed with plans for council investment as a catalyst to setting out the pathway to electrification of transport and cars across the island. The Council will also continue to invest in the management and expansion of its tree stock to keep it safe and as a significant contribution to net Zero ambitions.
57. Work will continue with the Environment Agency on its £60m programme of investment in coastal protection in key parts of the Island made possible by the Council's commitment of £6m and not inconsiderable staffing expertise in this area. This investment will protect around 5,000 homes from flooding.
58. The Council will continue to work with Natural England to secure £1.2m investment in the delivery of the England Coast Path. It will predominantly use the existing Isle of Wight Coastal Path route which will see upgraded surfacing, signage and furniture. Recent Coastal collapse and erosion has increased the workload and issues that need to be dealt with. The Council will also sustain the beach cleaning contract so that all amenity beaches are generally kept clear of all types of litter and refuse between 1st May and 30th September inclusive and will work with town and parish councils on the provision of marker buoys in key visitor areas.
59. At the very heart of our UNESCO Biosphere lies the 17 sustainable development goals of the United Nations, which the Council is now embedding into its corporate DNA. The Council has recently facilitated the formation of the Biosphere Steering group to take forward the development and enhancement of Biosphere status including identifying opportunities for economic growth. The point will be increasingly made and explored that Biosphere status is about much more than our environment.
60. The Administration is also conscious of local concerns about maintenance of the Island's public realm and as such has set aside £40,000 in this budget to facilitate support for and work with Town and Parish Councils to facilitate improvements in this area.
61. There has been a long standing need to upgrade the Isle of Wight's records office and to maintain our heritage. This budget contains £160,000 to pump prime the works necessary to secure significant lottery funding required to achieve this aspiration in a new cultural centre as part of the plans for the regeneration of Newport Harbour. In the meantime total investment of £600,000 will be made to fix the long-time leaking roof at Newport library and protect this valuable asset for the community.

## **COMMUNITY PROTECTION, REGULATORY SERVICES AND WASTE**

62. The council will continue to improve its waste and recycling services, including refurbished bring bank sites, with the addition of waste electronic equipment at some sites, plans for a new reuse centre for items from the household waste recycling centres (HWRCs), and a new education centre at the Forest Park recovery park.
63. We will continue to focus on reducing food waste and support the community with food waste issues. The news that single use plastics will be banned from sale to catering and hospitality businesses from October this year is especially welcomed.
64. Having listened to residents, we be introducing same day bookings (i.e. more than one booking in a day), at our recycling centres. Alongside this we have frozen our garden waste subscription prices for the coming year.
65. Measures to reduce fly tipping and littering will continue to be brought forward.
66. We continue to support food and related businesses to thrive post Covid as well as protecting consumers in ensuring the safety of the products and services they buy.
67. We will be working with the Police and the Community Safety Partnership to reduce crime and the fear of crime on the Island.
68. It is essential that we continue to provide good quality birth, marriage and death registration services on Island and caring local bereavement services to island residents.

## **HIGHWAYS PFI, TRANSPORT AND INFRASTRUCTURE**

69. Through grant funding, £2.1m will be spent on road safety measures to the A3056 between Sandown and Blackwater, designs to be established and agreed.
70. Contained within the Capital Programme is £2.6m of Network Integrity works. This includes £500,000 to support new highway scheme projects not included in the PFI contract. The Council will be bidding for £1m towards active travel initiatives to improve cycle ways and walkways across the Island in conjunction with the adoption of the Local Transport Plan (LTP4) later in 2023.
71. There are Safety Schemes within the Capital Programme amounting to £1.4m. Minor highway schemes across the Island, especially those involving statutory duties and road safety issues together with other design costs and preparations will be funded by this investment.
72. Financial capabilities mean we are having to defer several schemes for this financial year. Potentially substantial in value they include improvements to the



bus infrastructure network including accessibility projects, additional highway signage projects and minor drainage schemes not included in the PFI contract.

73. Overall, the Highways team will deliver the best possible outcomes for the available money in this year's budget, mindful that the demand for works that fall outside of the PFI contract on our highways, outstrips the funding available by a considerable margin.

## **PLANNING AND ENFORCEMENT**

74. Investment in our planning service has been a key priority for this administration and gaining value for money from investment to date is being guided by a detailed improvement plan arising from a peer review in 2022.
75. Our commitment to resourcing and updating the island planning strategy remains, taking account of new government advice.
76. Enhanced capacity in our planning enforcement team and exploration of partnering with town and parish councils to enhance this further will be a priority for the coming year.

## **REGENERATION, BUSINESS DEVELOPMENT AND TOURISM**

77. Recovery of the islands economy from the effects of the pandemic will be a key focus for Regeneration in 2023/24. The opening and further expansion of Building 41, along with provision of targeted business support across the island will help new businesses to start and existing businesses to grow. Income from tenants of the new Branstone Farm business park, which is proving very popular indicates a healthy demand for quality, flexible business space with accompanying business advice.
78. Development of an updated post-Covid Economic strategy and implementation of a "Skills for Work" programme designed to reach those struggling to re-enter the labour market are further key activities supported in part by the UK Shared Prosperity fund. A major focus on promoting increased accessibility for disabled visitors and helping employers recruit people with disabilities is also planned. To date the regeneration programme has secured over £50m public and private sector investment into the island, £18 for every £1 spent.
79. Place making across the island, working with local communities on the development and implementation of place plans is another key feature of regeneration activity. Projects include the implementation of physical improvements in Newport and Ryde, co-financed by Historic England, through the Heritage High St Action Zone programme along with a further £2m Arts council funded renovation of a former department store in Ryde to provide a new cultural industries hub. The East Cowes Marine hub project will see the bulk of its delivery in 2023/24 with further investment in the Columbine building, helping create more jobs in marine manufacturing, a new public square at East Cowes Esplanade and a renovated Victorian Barracks providing new training

facilities. Physical improvements to residential areas in the former prison estate will also continue into 2023/24.

80. Taking the vision for Newport harbour forward into post-covid delivery with an updated three year delivery plan, including the next phase for developing the new Cultural centre and new “meanwhile” business units, will inject new energy into the project attracting partner investment in delivery of the vision
81. A new Cultural strategy will inform future regeneration activity in consolidating and growing this important sector of the island economy (30% of total economy) realising economic and wider well-being objectives of the corporate plan. Supporting Medina Studios plans for development of the island’s first film production facility will be an important part of this enhanced focus on cultural industries.
82. How the island promotes itself to the wider world will be improved in the coming year – we have a great offer in terms of quality of life, an innovative culture and a resilient spirit. Encouraging others to bring investment and jobs, be successful and increase our prosperity will be at the heart of what we do.

## **STRATEGIC FINANCE, CORPORATE RESOURCES AND TRANSFORMATIONAL CHANGE**

83. The need for transformational change in culture and organisation of the Council has been recognised by all IW Councillors and remains an active process despite the major financial and logistical events of the past year. The well-established ‘Believe in Great’ cultural change programme that has seen year on year improvements in staff survey outcomes will also continue, with growing focus on municipal entrepreneurialism and commercialisation to underpin the delivery of our revised commercial and procurement strategies.
84. We have started to bring a more commercially focused manner to the Council by enabling each business unit to fully understand their revenues and costs, coupled with impact assessments of each planned new activity.
85. We continue to seek to invest as much of the Council’s money as possible on the Isle of Wight for the benefit it can provide in supporting jobs and the local economy.
86. These budget proposals allow the continued approach to creating and developing apprenticeship opportunities in the Council that offer excellent work experience opportunities and a step on the ladder to future career pathways. The adult and community learning service will remain as a vital part of our support to communities in acquiring work ready functional skills.

## COMMUNITY PROTECTION, DIGITAL TRANSFORMATION, HOUSING PROVISION AND HOUSING NEEDS

### 87. Anti-Poverty Support

Our work has involved:

- Cost of Living support – working with our Voluntary and Community Partners to ensure
- Support and guidance is available to those most in need e.g. food pantries initiative.
- We worked across organisation such as the Footprint Trust, CAB and through the support of CAIW providing Help Through Crisis, Community Warm Spaces. Through the networking and linking back to the former Island Covid support hubs we have continued to work within a cohesive framework.
- The Council has continued to support residents through inflationary pressures and increasing utility costs showing committed support to our most vulnerable residents. During this period we have promoted the use of WightCare as a form of falls and assurance to support and maintain independence.
- The IWC Housing and Homelessness action plan continues to optimise the strategy around Care Close to Home, and Support in Safe Accommodation those suffering homelessness. Supporting those sleeping rough with outreach support as necessary has also allowed the IWC to purchase 5 single bedroom units which were sought through the homelessness department with permissions granted by the s151 officer.
- Disability Facilities Grants (DFGs) have assisted in keeping residents in their own home and alleviated pressure from nursing homes and other social care support, however due to pressures we lag behind in provision and the current year budget is allocated. 2023/24 will see further pressure on this valuable resource.

### Island Digital Strategy & Corporate IT

88. The IWC corporate digital strategy continues to support agile working, which was found to be so effective throughout the Covid period, continues to support efficient ways of working through this current financially challenging period.
89. Initiatives have been sought and taken to reduce expenditure whilst continuing to support positive working methodology. Mobile telephones have been brought into the portfolio of Corporate IT and a review has brought forward more reduction in costs.
90. The new IWC Beta website is now back on track after being stricken by a shift in emphasis of priority working during the height of Covid and the efforts of staff giving their support. The confidence in choosing the right form of delivery

has been supported by performance of the staff after a review and justification of the methodology.

91. Through government funding Wight Fibre continue to digitise the island network and this has seen a good take up by both residents and businesses. A strong diverse business environment will attract opportunities in business and commerce throughout the island and enable people to work within their own community.

#### Housing & Development.

92. Housing was found to be lacking cohesion across various departments and throughout the last year it has been found not to be a 'quick fix'. A reluctance to change has meant slow progress however, together with the Chief Executive, we have now agreed the new post of a housing manager.
93. The Housing company registered with Companies House was not functional with an officer as a solitary director, a lack of scrutiny in evidence and therefore judged not fit for purpose. Approximately one year ago a meeting of members and officers with external advisors agreed on a new way forward which is, at the current time within IWC Legal Services. We trust this will now move forward positively. Last year the budget amendment removed monies out of this area and which has caused operational difficulties.
94. The budget amendment 2022/23 gave access to up to £40 million borrowing facility over a number of years (up to £5m in the current year). Due to the imbalance within the housing area of budget brought about by diverting £500k to tree planting and £500k for Rights of Way, followed by a bleak and challenging financial outlook with this future budget, stringent fiscal conditions were imposed.
95. During the period of the Alliance administration the affordable housing numbers have increased. The Alliance have never been content with a reliance on the units provided by private developments and that of Registered Providers (RPs), although they are welcome. We believe in Island affordable homes and Island affordable rental homes. Homes for Island people.
96. I have attended meetings with RPs and through discussion I have received positive signs of a renewed appetite to work with the IWC after some years of reticence which will hopefully bring forward new opportunities. During the past year discussion has taken place with others which can give rise to new working relationships. The IWC will explore all ways of acquiring housing for those in need.
97. Empty Properties have been a high priority for the Alliance administration as it is a win-win situation and could be an easier way forward than acquiring land, going through a planning process, and building etc. Since June/July 2022 we have been without an empty properties officer however. January 2023 has seen the appointment of a new substantive officer working to the new housing manager.

## BACKGROUND

98. The primary purpose of this report is to set the Council's overall Budget for the forthcoming year 2023/24 and the associated level of Council Tax necessary to fund that Budget.
99. The report makes recommendations on the level of Council spending for 2023/24 and the level of Council Tax in the context of the Council's Medium Term Financial Strategy (MTFS).
100. The recommended Budget for 2023/24 has been prepared on the basis of the following:
  - The requirement to meet savings amounting to £3.9m, that being £1.9m greater than the Council resolution of 23 February 2022 that set an overall savings requirement of £2.0m in order to meet the substantial cost pressures being driven by extra-ordinary levels of inflation and service demand
  - An increase in the level of Council Tax for 2023/24 for general purposes of 2.99%
  - The flexibility to increase the level of Council Tax for an "Adult Social Care Precept", within the limits set by Central Government at 2.0%, and the direct passporting of that additional funding to Adult Social Care to provide for otherwise unfunded cost pressures including the 9.7% increase in the National Living Wage.
101. This report also provides a comprehensive revision of the Council's rolling 3 year future financial forecast for the new period 2024/25 to 2026/27 (i.e. compared to the previous forecast covering 2023/24 to 2025/26, this forecast now replaces the forecast for the previous 3 year period).
102. The new forecast considers the future outlook for both spending and funding, and in that context, wider recommendations are made regarding the levels of reserves to be maintained and additional contributions to the Capital Programme in order to meet the Council's aspirations for the Island as well as maintaining the Council's overall financial resilience throughout this uncertain period.
103. In particular, this report sets out the following:
  - (a) The dramatic change in the financial environment during the current year alongside the financial challenges that this presents for 2023/24 and beyond
  - (b) A brief summary of the MTFS for achieving the necessary savings as approved in the report to Council in October 2016
  - (c) The Revised Revenue Budget for the current year 2022/23
  - (d) The Provisional Local Government Finance Settlement for 2023/24
  - (e) The Business Rate income for 2023/24 and future years

- (f) The Council Tax Base and recommended Council Tax for 2023/24
- (g) The proposed Revenue Budget for 2023/24
- (h) The financial forecast for the new 3 year period and consequent Savings Requirements for 2024/25, 2025/26 and 2026/27
- (i) Estimated General Reserves over the period 2022/23 to 2026/27
- (j) The forecast Collection Fund balance as at 31 March 2023 for both Council Tax and Business Rates
- (k) The detailed indicative savings (Appendix 3) that could be made by each Portfolio in meeting its overall savings amount in order to provide the Council with the assurance necessary to approve the recommended savings amount for each Portfolio
- (l) The statement of the Section 151 Officer on the robustness of the budget in compliance with the requirements of the Local Government Act 2003.
- (m) The Capital Programme for 2022/23 to 2027/28.

## **MEDIUM TERM FINANCIAL STRATEGY (MTFS)**

104. The Council approved a Medium Term Financial Strategy (MTFS) in October 2016 to guide the Council towards financial sustainability.
105. The Council has been required to make £93m in savings, efficiencies and service reductions (representing over 40% of controllable spending) over the past 12 years in order to balance the Budget, ensuring that spending remains in line with income and funding levels.
106. The financial environment changed rapidly through 2022/23 precipitated by the war in Ukraine, the existence of practical full employment in the economy and the strains on international supply chains due continuing Covid lockdowns. As a consequence, inflation as measured by the Consumer Price Index (CPI) accelerated and peaked in October 2022 at 11.1%, the highest level in over 40 years. Inflation is currently tracking at 10.5%. This has had a consequent impact on the cost of living for residents and therefore demand for Council Services has also risen substantially. The Office for Budget Responsibility are forecasting that CPI will remain high at an average of 5.5% for 2023/24 falling to 0% for 2024/25. These inflation and demand driven cost increases outstrip the rates of increase in funding, causing a "structural gap" between spending and funding.
107. The challenge presented by these inflation driven cost pressures, exacerbated by the legacy impact of the Covid pandemic when combined with an uncertain funding environment represent the greatest risks to the delivery of sustainable public services on the Island. Accordingly, the Council's MTFS is designed to resolutely maximise the deployment of the resources that it does have (Revenue, Capital, Property and Staff) towards driving additional income / funding and cost savings to secure Services for the future.

*"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*

### SHORT TERM

- Theme 1** Create Financial and Operating Capacity to Transform
- Theme 2** Increasing Efficiency and Effectiveness

### SHORT TO MEDIUM TERM

- 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

### MEDIUM TO LONGER TERM

- Theme 6** Public Service Transformation

108. The overall aim of the MTFS is illustrated below:

109. The 6 Themes of the MTFS are described below.

110. The themes within the MTFS have been designed as a comprehensive and complementary package of measures to support the Council to navigate through the financial challenge that it faces. Theme 1, "Create Financial and Operating Capacity to Transform" remains the critical building block to enable all other activities to take place. Without financial resilience and sufficient general reserves, the Council will not be able to:

- i) Take a proportionate and managed approach to the implementation of the Council's Savings Requirements and the "smoothing out" of savings over longer time periods will not be an available option resulting in larger and deeper service reductions
- ii) Cushion the impact on services from any "financial shocks"

- iii) Take advantage of opportunities that may arise (e.g. additional external funding) which requires a Council contribution and would contribute to the future financial sustainability of the Council.

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

## **REVISED BUDGET 2022/23**

112. The Original Revenue Budget approved by the Council in February 2022 was £161,087,775 and was relying on a draw down from General Reserves of £28,575, indicating a "structurally balanced budget".

113. The Cabinet has received regular quarterly Budget Monitoring reports on the 2022/23 Budget throughout the year. Those forecasts have consistently reported that the Budget remains broadly in balance this has only been achieved by:

- i) Drawing down from the Council's Covid Contingency to accommodate the Covid related additional costs and income losses associated with the following:

- (a) Adult Social Care residential care - £2.1m
- (b) Leisure Services income losses - £0.9m
- (c) Car Parking income losses - £0.2m

- ii) Relying on the Council's Corporate Contingency to fund the following:

- (a) The additional costs of the 2022/23 pay award - £2.5m
- (b) Exceptional costs of Children's Social Care placements - £2m

- iii) Other forecast overspendings in Adults and Children's Social Care but compensated by additional interest income from the Council's Treasury Management activities

114. The Covid contingency was established to provide a good level of surety that the Council will be able to continue to deliver all of its essential services as well as being able to respond to the continuing legacy effects. At present the Covid Contingency is forecast to be £8.4m at the end of 2022/23, £4.2m by the end of 2023/24 but fully utilised over the following 2 year period to cover care related costs.

115. The Original Budget has now been comprehensively revised, now requiring a contribution from General Reserves of £126,800 versus the budgeted contribution of £28,600, a difference of £98,200 and arising as a consequence of Government funding being slightly lower than estimated.

116. The proposed Revised Revenue Budget of £160,606,100 is set out in the General Fund Summary (Appendix 1).



## REVENUE BUDGET 2023/24

### Overall Strategy

117. The overall aim of the Council's Medium Term Financial Strategy (MTFS) is to match "In Year" spending with "In Year" income and funding over the medium term with the use of General Reserves to "smooth out" any necessary fluctuations between years. This is consistent with being a financially sustainable Council providing quality public services.
118. The Council's MTFS, contains an interdependent package of measures to achieve financial balance and sustainability over the medium term which includes:
- Targeted draw down of the £40m "over provision" for debt repayments over a 5 year period (see paragraphs below)
  - Savings levels following a "smooth profile" (facilitated by drawing / contributing to General Reserves) to enable necessary savings to be implemented in a managed way
  - Gradual repair of the Council's General Reserves to levels that can provide financial resilience for uncertainty and potential "financial shocks"
  - A financial framework that supports responsible spending and removes financial obstacles to the delivery of strong Spend to Save schemes.
119. As reported last year, the annual draw down from the £40m overprovision for debt repayment (commonly referred to as the "debt repayment holiday") ended in the current year. The Council's Budget for Debt Repayment has now returned to normal levels, the timing of which was designed to coincide with the strategy to achieve "Structural Balance" to the Budget.
120. The Council's approved MTFS and Savings Requirements also accommodates the repair of its General Reserves over time. It is vital that the Council maintains its General Reserves at the levels set out in this report if it is to continue to have the facility to "smooth out" necessary savings over time.
121. As originally envisaged within the MTFS, General Reserves are forecast to rise gently over the next 4 years to a level with "headroom" of a modest £4.3m above the minimum levels. This is necessary to guard against known uncertainty and financial shocks such as has been experienced over the past year which rapidly saw the Council experience £20m of unplanned financial pressures. Underlying General Reserves at £12.3m over the medium term are extremely modest.
122. The Administration undertakes an annual Budget Consultation, using it to inform spending and savings priorities as well as its Council Tax proposals.

### **Budget Consultation**

123. The Council published its online budget consultation survey on 22 December 2022 which closed on 30 January 2023 with 1092 responses (682 responses

last year). The Council also held meetings with the Union, Town and Parish Councils and the Voluntary Sector and the Business sector.

124. A summary of the results is set out below and has been considered by the Administration in setting out their Revenue Budget, Council Tax and Capital Investment proposals:

- Council Tax Increase for General Purposes:
  - 74% of respondents opted for an increase of 1%, 2%, 3% or more than 3%.
  - The most popular choice was for a 3% increase (30% of respondents).
- Support for an adult social care levy on council tax of 2%:
  - 62% of respondents supported raising a levy of 2%
- Fees & Charges for Specific Services:
  - 85% of respondents would prefer to see an increase in charges for services so as to maintain them. The most popular choice was for a modest increase (46% of respondents).
- Priorities for remaining funds:
  - 39% ranked ensuring older people and vulnerable adults are looked after and supported to live independently as their first priority
  - The second ranked priority was supporting education, early years and children with special educational needs 15%.
- Spending on one off projects:
  - 44.3% ranked investing in sea defences and flood protection as their first priority
  - The second ranked priority was schools and specialist provision for children with additional needs 43.9%

125. The consultation also allowed for respondents to make comments. Most often mentioned was the need to build more affordable housing and stopping or charging second home owners. Improving cycle paths and public transport, encouraging business investment and tourism, utilising empty properties, removing or reducing car parking charges and improving efficiency were also common themes.

### **Funding - Summary of the Local Government Finance Settlement**

126. The Local Government Finance Settlement is the term used to describe the main non-ring-fenced Revenue and Capital grant funding allocations from Government.

127. In overall terms the provisional Local Government Settlement has provided additional grant funding in 2023/24 of £6.2m as follows:
- i) Increase in Social Care Grant (for Adults and Children) - £4.2m
  - ii) Social Care market sustainability & improvement - £1.2m
  - iii) Support for hospital discharge £0.9m
  - iv) Reduction in Grants for all other Services £0.1m
128. Set against the new funding of £6.3m of funding from Social Care (Adults & Children) are the existing and known Budget Pressures across those Services of £11.9m, leaving a funding shortfall of £5.6m. Therefore, further funding from the Adult Social Care Precept of £1.9m will also be required to narrow the gap between these cost pressures and the funding available.
129. Other features of the Settlement include:
- A 1 year Settlement but with an accompanying "Local Government Finance Policy Statement" that sets out the government's intentions for the local government finance settlement for 2024/25 also
  - No increase in the Improved Better Care Fund, therefore remaining "cash flat"
  - Council Tax increase thresholds of:
    - 3.0% or £5 for Shire District Councils
    - 3.0% for Upper Tier and Unitary Councils
    - 2.0% for Adult Social Care (Upper Tier Authorities only)
    - £5 for Fire & Rescue Authorities
    - £15 for Police and Crime Commissioners
  - An anticipated increase in Social Care funding for the following year (2024/25) of £3.3m.
130. It has now been 7 years since the Government first announced that it would consult and implement Local Government Funding Reform. Funding Reform has been further delayed until 2025/26. Funding Reform covers the following:
- The "Fair Funding Review", (to determine a new formula methodology which will set each Local Authority's baseline funding level and creating "winners and losers")
  - The Retained Business Rates system which involves the removal of all existing growth retained to date (amounting to £10m) and re-distributing that growth nationally according to relative need (rather than where it was generated).
131. The Fair Funding review is the mechanism by which on-going funding would be provided for the unique cost pressures associated with providing Council Services on the Island (often referred to as being included within the "Island Deal"), if the case made to Government is accepted. This review has now delayed by a further 2 years. Government have confirmed that the additional

£1m allocated to the Isle of Wight Council in the current year in respect of the costs of physical separation from the mainland will continue into 2023/24. The Council has been continuing to work with Government throughout this year to provide further evidence beyond the 5 studies that concluded that, even at the lower range of estimates, the additional costs to the Council of providing Services are at least £10m per annum. Government have committed to further engagement over the next financial year to inform the Local Government Finance Settlement for 2024/25.

132. Whilst the Local Government Finance Settlement is a significant factor in determining the Council's overall financial position and therefore any necessary savings, other significant factors that will affect the Council's future Savings Requirements include Business Rates income, Council Tax income, inflation, interest rates and any new unfunded burdens passed down from Government. These are described in the paragraphs that follow.

### ***Retained Business Rates - 2023/24 & Future Forecasts***

133. The Retained Business Rates system is complex and subject to a significant degree of inherent risk. The current national system is characterised by a complex formula which includes the following:
- i) Retention of 50% of all business rates received and which is affected by the value of successful appeals, the number of mandatory reliefs (e.g. charitable relief) and the overall collection rate (i.e. how much is uncollectable and written off)
  - ii) Increased by a fixed amount "top up" which increases annually by the rate of inflation
  - iii) Compensation through S.31 Grants for national government initiatives which have the effect of reducing Business Rates to the Local Authority such as business rate capping for small businesses
  - iv) A "safety net" set at 7.5% below a pre-determined baseline below which retained Business Rates will not fall
134. In total, for 2023/24, Retained Business Rates are estimated at £42.0m<sup>1</sup>, which includes a deficit relating to previous years of £0.2m arising mainly from higher than anticipated successful business rate appeals.
135. Future years' forecasts of Business Rates are limited to inflation related uplifts and with flat growth in the business rate base.
136. The estimation of Retained Business Rates receipts is extremely complex, with the potential to be volatile and with many of the factors outside this Council's control. In particular, the Valuation Office Agency will both determine whether a

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<sup>1</sup> Includes Retained Business Rates of £17.0m, "Top Up" of £12.0m, S.31 Grants of £13.0m and a Collection Fund deficit of £0.2m

rating appeal is successful and the level of reduction granted with the Council having no right of challenge. To help mitigate against this risk, the Council maintains a modest reserve to provide the Council with a degree of funding stability in the event of fluctuations within and between years.

137. Despite the complications and risks associated with appeals, there remains the financial incentive within the system for many Local Authorities (including the Isle of Wight Council<sup>2</sup>) to generate economic growth and job creation. Irrespective of the financial incentive, the Council's Medium Term Financial Strategy (MTFS) is aimed at improving the Island Economy to generate growth and productivity (which improves the Council's Business Rate Base) as well as reducing the demand for Council Services generally.
138. From 2025/26, there is expected to be a review of the Business Rate Retention Scheme, the details of which are not yet known. The review will include a "Reset" which will remove all current business rate growth currently being enjoyed by authorities and which for the Council amounts to £10m.
139. The Business Rate growth enjoyed by all councils will be removed from councils, aggregated and then re-distributed based on "Need" through the Fair Funding review. If the Council's "Relative Needs" have increased by more than the average of all other Councils, then the Council will be a "winner " in terms of the re-distribution and vice versa.

### ***Council Tax - 2023/24 & Future Forecasts***

#### Council Tax Amount 2023/24

140. Council Tax currently represents almost 58% of the Council's total revenue funding and as Government funding has reduced, Council Tax has become an increasingly more important and dependent source of funding for the Council.
141. Council Tax for the average Council Tax payer on the Isle of Wight (Band C) currently amounts to £1,816.04 (excluding parish precepts), of which £1,538.80 (84.7%) is the Isle of Wight Council element. Not all residents are subject to the full amount of Council Tax with many benefitting from exemptions and discounts (such as the single person discount) and a significant number of residents receiving Local Council Tax Support bringing the level of Council Tax payable to an assessed affordable level. After discounts, exemptions and Local Council Tax support is taken into account, circa 56% of all properties are subject to the full level of Council Tax.
142. The Provisional Local Government Finance Settlement for 2023/24 confirmed a Council Tax increase limit for general purposes (i.e. referendum threshold). Any increase beyond the 2.99% threshold can only be implemented following a "Yes" vote in a local referendum.

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<sup>2</sup> Applies to Local Authorities that, in general, remain above the safety net threshold over time

143. As described more fully later in this report, the actual level of inflation for the Council in 2023/24, taking into account price rises that the Council is exposed to, significantly exceeds the level of increase allowed in the Council Tax.
144. The additional flexibility to apply a Council Tax increase for the Adult Social Care Precept has been provided in recognition of the extreme cost pressures facing Adult Social Care, both through the increase in the National Living Wage (which has increased by 9.7% and affects the Council's contracts with Care Providers for Adults) as well as the elevated levels of inflation generally and the demographic pressures from general aging and a "living longer" population.
145. Given the extraordinary demand and inflationary pressures on the Council and having due regard to the results of the Budget Consultation, it is proposed that:
- i) The Council Tax for General Purposes be increased by 2.99% for 2023/24, representing 89p per week for a Band C tax payer and yielding £2.8m
  - ii) Adult Social Care precept be increased by 2.0% for 2023/24, representing 59p per week for a Band C tax payer and yielding £1.9m to be passported direct to Adult Social Care.
146. It is vital that the flexibility of the Adult Social Care (ASC) Precept is taken for the following reasons:
- The cost and demand related pressures for 2023/24 (including the National Living Wage increase of 9.7%) amount to £7.6m
  - Additional funding from Government to cover both Adults & Children's Services unavoidable cost pressures results in an overall funding shortfall of £5.6m<sup>3</sup>
  - The alternative to not applying the ASC Precept would be to increase the level of savings required by the Service, presenting risks to the wider health system on the Island.
147. The Council could elect not to increase the level of Council Tax by 2.99% but if it chose to do so, would need to identify additional savings of £0.9m for every 1% of Council Tax foregone if it is to achieve a "Structurally Balanced" Budget

#### Council Tax Base 2023/24

148. The Council Tax Base (i.e. the number of Band D equivalent properties paying the full Council Tax) has been determined as **54,087.0** for 2023/24.
149. The Council Tax Base has been determined at a level that accommodates the Council's "*preference to increase the maximum level of support for working age cases to 70 per cent (from the current maximum level of 65 per cent)*". The financial impact of this is to add £0.3m to the Isle of Wight Council's Budget Deficits and to reduce Council Tax income to other preceptors by £60,000

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<sup>3</sup> Children's Services cost pressures £4.3m, Adults Social Care cost pressures £7.6m less increase in Social Care Grants £6.3m

(Police, Fire and Town & Parish Councils). This in turn is likely to result in those preceptors increasing their level of Council Tax to compensate for their reduced income.

150. In acceding to the Council's preference, the Administration have proposed to extend the scale of its originally planned Organisational Re-design savings from £0.9m to £1.2m and increasing the scale and coverage of the review. The organisational re-design is expected to reduce discretionary activity across all service areas of the council by between 30% and 50%.

Collection Fund Balance (Council Tax Element) 2022/23

151. The Collection Fund is the account into which paid amounts are collected in respect of Council Tax, and out of which are paid the Council Tax precepts to:

- Isle of Wight Council, including town and parish precepts (85.7% share)
- Hampshire Police & Crime Commissioner (10.9% share)
- Hampshire & Isle of Wight Fire & Rescue Authority (3.4% share).

In the event that actual Council Tax income receivable is different from the estimated income (informed by the calculation of the Council Tax Base) upon which the precepts are based, then a surplus or deficit will arise.

152. For 2022/23, it is estimated that there will be a deficit on the Collection Fund of £848,700 which will be shared in proportion to the 2022/23 precepts (excluding Town & Parish Councils) and distributed to the preceptors as follows:

<b>COLLECTION FUND DEFICIT - 2022/23</b>		
<b>Preceptor</b>	<b>Distribution</b>	
	<b>£</b>	<b>%</b>
Isle of Wight Council	728,800	85.4%
Hampshire Police & Crime Commissioner	92,100	11.1%
Hampshire & Isle of Wight Fire & Rescue Authority	27,800	3.53
<b>Total Deficit</b>	<b>848,700*</b>	<b>100.0%</b>

\*Includes a deficit of £578,900 which under regulation was allowed to be spread over 3 years and is shared on a different basis

The Isle of Wight Council Share of the deficit of £728,800 is factored into the overall Council Tax income for 2023/24.

Total Council Tax Income 2023/24 & Future Years

153. Considering the Council Tax increase, Council Tax Base and deficit on the Collection Fund, the total Council Tax income for 2023/24 is estimated at £97,584,120.
154. As Government funding reduces, rises in Council Tax income are fundamental to the Council's future financial position and therefore the future sustainability of Council Services. The Council's Medium Term Financial Forecast (MTFS)

assumes that Council Tax Income will rise to £110,042,113 by 2026/27 and is based on the following assumptions:

- Annual increases in the amount of Council Tax of 4.99% for 2023/24
- Increases of 4.99% per annum for 2024/25 (including 2% p.a for the Adult Social Care Precept) and falling to 2.99% increase per annum thereafter (including 1% p.a for the Adult Social Care Precept)
- Increases in the Council Tax Base of 0.2% per annum for 2024/25 and 2025/26 and 0.1% thereafter
- No allowance has been made for the proposals in the Levelling Up and Regeneration Bill currently passing through parliament relating to additional Council Tax income from empty properties and second homes, which could amount to up to £5m for the Isle of Wight Council from April 2024

### ***Funding Summary***

155. Over the following 3 year period of the Council's forecast, funding is anticipated to rise by just 8.7% (or an average of 2.9% p.a), reflecting a 4.99% increase in Council Tax for 2024/25 alongside additional funding for Social Care of £3.3m in 2024/25. Thereafter Council Tax rises are expected to fall back to £2.99% per annum. No further funding for the "Island Deal is forecast beyond the current £1m and there is an anticipated forecast net loss of retained Business Rate Growth of £1m reflecting the extent to which £10m of Business Rate Growth achieved on the Island is not then re-distributed back to the Council through the Fair Funding review planned for April 2025.

### ***Spending Proposals 2023/24***

156. In the current financial year a number of Portfolios are exhibiting signs of financial stress, some of which is Covid related and which in the short term can be provided for from the Covid Contingency. Other demand and inflationary pressures, particularly in Adults and Children's Social Care are expected to be more long lasting and are provided for within the Budget proposals for 2023/24.
157. Inflation peaked at 11.1% in October 2022, its highest in 40 years. The main measure of inflation CPI (Consumer Price Index) is currently tracking at 10.5% with the RPI (Retail Price Index), upon which some contracts remain linked, tracking at 13.4%. The Office for Budget Responsibility, the advisors of Government for the purposes of policy setting, are forecasting that CPI will remain high at 5.5% for 2023/24 (starting the year at 8.9% and ending the year at 2.5%) but falling to 0.0% for 2024/25 and remaining subdued thereafter.
158. Contained within the overall Budget proposal for 2023/24 are over £20m of additional costs and inflationary pressures as follows:
- Additional Spending in Adult Social Care of £7.6m (to cover the uplift in the National Living Wage of 9.7% that will be used to support care providers as well as all other cost and inflationary pressures)



- Additional Spending in Children's Services of £4.3m (to cover inflation, existing overspendings on placements and additional Social Worker capacity generally and within Special Educational Needs due to elevated caseloads)
- An inflationary uplift for all Services in order to maintain "steady state" provision amounting £6.8m (excluding Adults & Children's Services above)

159. Other Budget items are set out under the headings below:

*Revenue Contributions to Capital*

160. Due to the scale of the demand and inflationary pressures that the Council are experiencing, the Council has been unable to afford any contribution towards new Capital Investment either from the 2022/23 Budget or from the 2023/24 Budget. Consequently, the Administration has had to restrict its ambitions to essential Capital Investment only that is required to continue to deliver the current level of services on a sustainable basis. A modest £15m of new Capital Investment is proposed but, due to the affordability constraints, it has been necessary to re-direct £1.9m of funding from within the currently approved Capital Programme.
161. Budget affordability constraints are expected to continue in the future. To address both the Administration's aspirations and the Council's future statutory obligations, future Revenue Contributions to the Capital Programme will inevitably be required. Whilst bidding for external capital funding will always form part of the strategy to fund Capital Investment requirements, not all investments will be either eligible or successful.
162. Given that this Capital Investment is necessary for the Council's statutory obligations, support to transform the Island's economic potential as well as the Administration's priorities (particularly to provide housing affordable to Island residents), it is vital that the Council makes provision for Revenue Contributions to Capital wherever possible. To fulfil even some of the future obligations and aspirations, further revenue contributions to capital will be required in future years and will need to be embedded within the Council's financial planning process.
163. It is vital therefore that the "standing recommendation" continues that any savings arising at the year-end be transferred to Capital Resources in order to provide funding for known and potential future commitments.

*Transfer to the Transformation Fund*

164. Similarly, due to affordability constraints, there is no proposed transfer to the Transformation Fund either from the Revised Budget 2022/23 or the Budget 2023/24. Looking forward however, replenishment of this reserve is vital if it is to continue in its capacity to be a vehicle to enable Spend to Save and Invest to Save initiatives to contribute towards the delivery of savings in the future. The Reserve currently contains a modest uncommitted balance of £3.2m and historically sums of between £1m to £2m annually have been required to

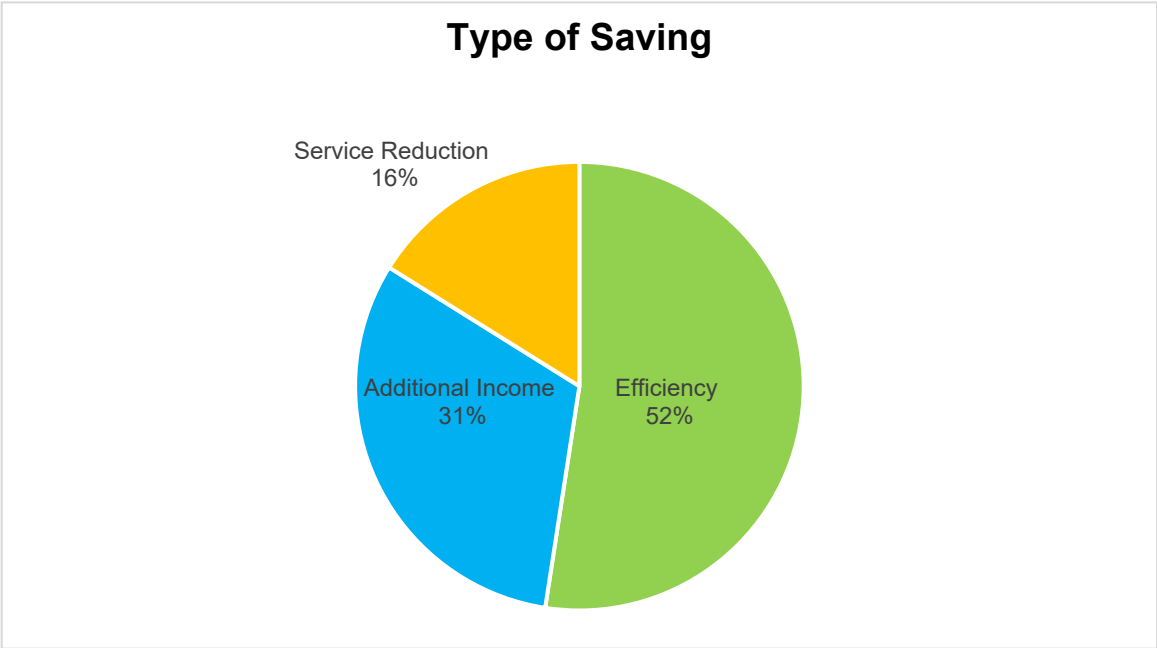
support the delivery of budget savings and the genuine transformation of services.

165. Additionally, for the Budget 2023/24, the Transformation Reserve will be required to support the implementation of the Organisational re-design that has been proposed in order to meet the savings necessary to provide for a "structural balance" in the Budget. In this context, and in the absence of a planned programme of replenishment, it is important that the "standing recommendation" continues to be adopted to enable savings arising at the year-end be made available to "top up" the Reserve.

**Savings Proposals 2023/24**

166. As in previous years, the Medium Term Financial Strategy (MTFS) has advocated an "Avoidance to Cuts" approach wherever possible. The Administration are committed to maximising this approach and with a very strong emphasis on income generation going forward. The exceptional circumstances currently being experienced have required a much heavier reliance of service reductions for the coming year.

167. In overall terms, the proposed £3.9m of savings are illustrated below with 84% of all savings expected to be derived from Additional Income and Efficiency Savings:



168. A summary of the overall total savings proposals by Portfolio, is set out below.

Portfolio	Controllable Budget	Savings Proposal	
	£	£	%
Adult Social Care & Public Health*	54,438,981	1,243,500	2.3%
Children's Services, Education & Lifelong Skills*	28,695,978	299,000	1.0%
Climate, Environment, Heritage, HR, Legal & Democratic Services	7,812,210	128,000	1.6%
Community Protection, Regulatory & Waste	9,471,672	430,000	4.5%
Digital Transformation, Housing, Homelessness & Poverty	9,306,890	255,000	2.7%
Infrastructure, Highways PFI & Transport **	12,658,707	536,600	4.2%
Leader & Strategic Oversight	732,911	150,000	20.5%
Levelling Up, Regeneration, Business Development & Tourism	4,816,254	130,000	2.7%
Planning & Enforcement	2,646,087	45,000	1.7%
Strategic Finance, Transformational Change & Corporate Resources	9,339,164	677,900	7.3%
<b>Grand Total</b>	<b>139,918,854</b>	<b>3,895,000</b>	<b>2.8%</b>

\* Excludes the additional funding passported through to Adult Social Care of £7.6m (which if included would result in an overall increase of 11.6%) and the additional funding for Children's Services, Education & Lifelong Skills of £4.3m (which if included would result in an overall increase of 14.0%)

\*\* Excludes £19.4m of PFI grant funding, on a gross expenditure basis the saving amounts to 1.7%

169. Inevitably, there are a number of financial risks contained within the proposals for making savings of the scale of £3.9m on the back of making over £93m in savings over the past 12 years. The risks are unavoidable. For those risks with the highest likely impact, such as Children's Services and Adult Social Care, mitigation strategies and contingency provisions have been made.

170. It is important to note that the Council's responsibility is to set the overall Budget of the Council and determine the individual Budget for each Portfolio / Service. It is not the responsibility of the Council to approve the detailed savings that need to be made in order for the Portfolio / Service to meet its own Budget. The Council do need to have the confidence that the recommended savings for each Portfolio are deliverable and what the likely impact of delivering those savings might be. Indicative savings that are likely to be necessary in delivering the overall Portfolio savings are attached at Appendix 3 and whilst the detailed savings are not a matter for the Council to decide, they

are presented to inform the decision of Council relating to the savings to be made by each Portfolio / Service.

171. For savings proposals that require consultation, the actual method of implementation or their distributional effect will not be determined until the results of that consultation have been fully considered. Following consultation, the relevant Portfolio Holder may alter, amend or substitute any of the indicative savings proposal(s) set out in Appendix 3 with alternative proposal(s) amounting to the same value.

### ***Summary of Proposed Revenue Budget 2023/24***

172. The proposed Budget for 2023/24 has been prepared to include the following:

#### *Spending 2023/24:*

- Cost and Inflationary Pressures of over £20m
- No Revenue Contribution to the Capital Programme
- The £3.9m savings proposals as set out in Appendix 3.
- Balance on the Covid Contingency - £4.2m at the end of 2023/24 and full exhausted by 2025/26
- Core contingency provision to cover known and anticipated financial risks of the Council amounting to £4.0m, especially those relating to increases in demand for Adult Social Care and Children's Services, Inflation volatility, Emergency Repairs risks and the delivery of budget savings more generally

#### *Funding 2023/24:*

- An increase in funding from Government of £6.2m with £6.3m provided for Social Care but a cut for all other services of £0.1m (plus no funding for inflation for other services which is running at over 10%)
- Underlying Business Rate income for 2023/24 is an increase of 11.4%, largely reflecting an inflationary uplift
- An overall increase in Council Tax of 4.99%, yielding £4.7m
- An increase in the Council Tax base equivalent to 207.1 Band D properties resulting in additional Council Tax income of £0.4m
- A "one-off" deficit on the Council Tax Collection Fund of £0.7m
- A "one-off" deficit on the Business Rate Collection Fund of £0.2m

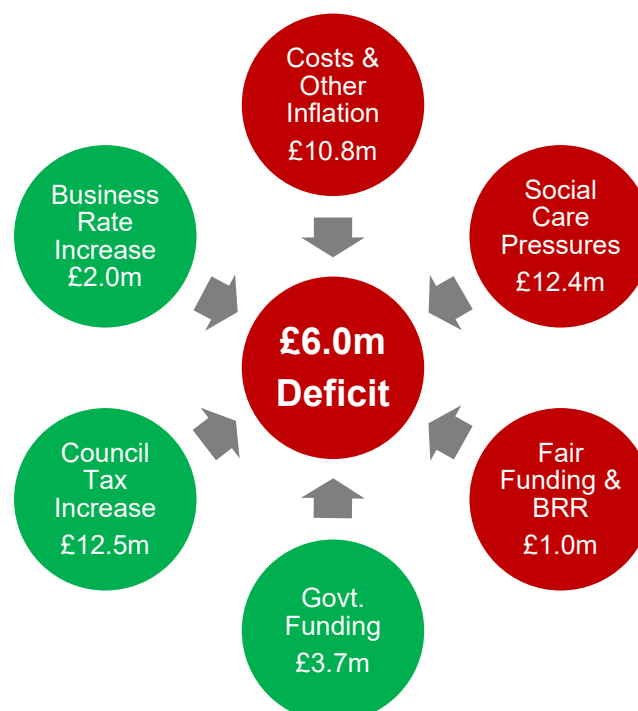
173. The combination of the spending and funding proposals in the proposed Budget for 2023/24 above combine to provide a "structurally balanced" requiring no withdrawal from General Reserves.

174. The proposed Budget for 2023/24, including the main changes described above results in net spending of £178,802,800. This amounts to a net increase

in spending of £17,715,000 or 11.0% over the Original Budget 2022/23 and is recommended for approval.

## REVENUE FORECASTS 2024/25 TO 2026/27

175. A new medium term forecast has now been completed and "rolled on" a further year to cover the period 2024/25 to 2026/27. All of the financial assumptions have been comprehensively revised and a savings requirement for the new period determined.
176. The previous medium term forecast estimated that savings of £6.0m would be required across the 3 year period 2023/24 to 2025/26. The proposed Revenue Budget for 2023/24 provides for £3.9m savings that were required to bring the Budget back into "structural balance" and as a consequence has enabled the new future years' forecasts to remain consistent with that which was forecast in February 2022.
177. The new medium term forecast takes account of the £3.9m savings being achieved in 2023/24 (rising to £4.5m in a full year) and comprehensively revises all other assumptions and incorporates a forecast for the additional year 2026/27. It is now estimated that the savings required for the new 3 year period 2024/25 to 2026/27 will now be £6.0m. The "smoothing" and "spreading" for the future deficit over 3 years is only made possible by holding "headroom" in General Reserves above their minimum levels.
178. The Budget Deficit for the new 3 year period is £6.0m and is described in the paragraphs that follow.



179. The most significant assumptions in the medium term future forecasts for the period 2024/25 to 2026/27 are described below:

*Spending:*

- Cost and inflationary pressures in both Adult Social Care and Children's Services of £12.4m (including future uplifts to the National Living Wage in accordance with OBR Forecasts)
- Cost and inflationary pressures in all other Services of £10.8m covering all pay and prices (assuming pay awards, specific contract inflation and CPI/RPI increases in line with the forecasts from the OBR)
- Revenue Contributions to Capital re-commencing in 2024/25
- No further contributions to the Transformation Reserve
- An assumption of a steady state for all budgets.

*Funding:*

- A net loss in Government funding, mainly arising from the Fair Funding Review and Business Rate Retention scheme of £1.0m, phased in from 2025/26 onwards (**Note: the Business Rate "Reset" will remove £10m of growth which may not be fully re-distributed through the Fair Funding Review**)
- No further increase in funding arising from the "Island Deal" (**Note: £1m in total is built into the Budget for 2023/24 and ongoing**)
- An overall increase in Council Tax Income of £12.5m which incorporates:
  - Increases of 4.99% per annum for 2024/25 (including 2% p.a for the Adult Social Care Precept) and falling to 2.99% increase per annum thereafter (including 1% p.a for the Adult Social Care Precept)
  - Increases in the Council Tax Base of 0.2% per annum for 2024/25 and 2025/26 and 0.1% thereafter
  - No allowance for additional Council Tax income from empty properties and second homes which could arise from future legislation and amount to up to £5m from April 2024
- Indexation uplifts on retained Business Rates of 5.5% for 2024/25, 0.0% for 2025/26 and then minus 1.0% for 2026/27
- An underlying zero growth assumption for changes in Business Rates from 2024/25 onwards, to reflect the uncertainty relating to appeals and mandatory reliefs
- That any loss of business rates income arising from National Business Rate reduction / capping initiatives will continue to be recompensed by Government via S.31 grant funding.

180. Future funding from Government from 2025/26 onwards is heavily dependent on the outcome of the Fair Funding Review and Business Rate Retention scheme review. It must be recognised that the outcome of these reviews remains uncertain.

181. It is also important to recognise that this forecast extends beyond the Fair Funding Review and the revised Business Rate Retention Scheme due to be implemented in 2025/26. It moves a year beyond these events and makes broad assumptions at the macroeconomic level pending any indicative information at the local level. Inflation assumptions are also potentially volatile and therefore there remains a significant level of uncertainty surrounding the £6.0m forecast deficit which could realistically vary between +/- £5m.
182. It is proposed that the Council takes an evenly managed approach to addressing the £6.0m of savings required over the next 3 years by phasing those savings evenly, as set out below, in order to provide reasonable time for plans and the necessary proposals to be prepared and implemented.



183. Due to the uncertain nature of the future years' forecasts, it is imperative that the Council plans for £2.0m of savings per annum as well as maintaining sufficient General Reserves. This is a balanced approach, appropriate to an eventuality where the Council's forecasts are either too pessimistic or too optimistic. For example, in the event that the 3 year forecast improves, the Council has not prematurely made a level of savings and service reductions that could have been avoided and it allows more time for savings initiatives to take effect. If the forecast deteriorates, the Council will have made good progress towards the necessary savings and have sufficient General Reserves to avoid significant "spikes" in Savings Requirements in any single year in the future.
184. Crucially this savings strategy, as described above, can only work if the Council retains General Reserves and the Covid Contingency at the levels set out in this report as well as retaining the Transformation Reserve to be available to support the delivery of future savings. Should the Council elect to follow an alternative savings profile, the Council's financial risk will increase, and this will necessarily need to be reflected in the assessment of the minimum level of General Reserves (now determined to be required to be maintained at £8.0m) that the Council must hold in order to maintain its financial resilience.
185. In summary, the overall forecast budget deficit and therefore savings requirement, has been maintained at £6.0m as a consequence of the Administration's proposals to provide for a "structurally balanced" Budget in 2023/24 and 2024/25. The forecast has been "rolled on" to now include the financial year 2026/27 and the overall forecast budget deficit and savings requirement for the 3 year period is forecast to be £6.0m. Importantly, this level of budget deficit can only be maintained if the Council approves the proposed £3.9m of savings as well as the increase in Council Tax of 4.99% for 2023/24.

186. The medium term financial forecasts are set out as part of the General Fund Summary in Appendix 1.

## **ESTIMATED RESERVES 2022/23 TO 2026/27**

187. In general, maintaining adequate reserves is a measure of responsible financial management and strong financial health. They are required in order to be able to respond to "financial shocks" without having to revert to the alternative of quick and severe services reductions. Equally, they can be a vehicle to take advantage of any opportunities that may arise which are in the financial interests of the Council (for example, matched funding opportunities which could lever in additional funding for the Island). Importantly, they also enable differences between expenditure and funding levels to be "smoothed out" and "spread out" in a managed and planned way over time.

188. Operating at a minimum level of reserves, and an over reliance on the use of reserves in any one year, has the effect of delaying savings from one year and adding them to the following year's savings requirement. This results in a level of savings required in the following year that are likely to be extremely difficult to achieve and with a corresponding drastic reduction in services. It also places the Council in a potential chaotic environment where any unforeseen financial pressures arising in the year would need to be met by equivalent further savings in the same year. This can have a de-stabilising effect on Council services, shifting the focus from driving through efficiencies, income generation and regeneration activities, to one that is focused on cuts in services which can be achieved more readily within the timescales.

189. In accordance with Best Practice, a review of the Council's reserves and balances has been undertaken as part of the budget process. The review considers the Council's potential financial risks over the next few years in order to determine the prudent level of balances that should be retained, based on the Council's risk profile. The assessment of the minimum level of General Reserves takes account of, but is not limited to, the following:

- The proposal to maintain a Covid Contingency of £4.2m as at the end of 2023/24
- The current relatively low level of General Reserves representing just 2.9% of Gross Expenditure
- The potential continued exposure to a volatile inflationary environment
- The increasing susceptibility to budget pressures generally given the magnitude of savings that have been made in the past (i.e. £93m)
- The required level of future savings necessary to remedy the forecast deficit of £6.0m
- The inherent volatility of the Business Rate Retention system (previously described) both now and in the future
- The uncertainty presented by the overhaul of the Local Government Funding system in 2025/26



- Potential for reduced Council Tax collection rates associated with the legacy of the covid pandemic as well as the cost of living crises
  - Potential liabilities for some substantial disputes against the Council.
190. Predicated on the approval of £3.9m savings for 2023/24, a Council Tax increase of 4.99% and the retention of the Covid Contingency of £4.2m it is considered, given the weight of financial risk being carried by the Council and the other reserves that are maintained for specific purposes, that the minimum General Reserves that should be maintained is £8.0m.
191. Should the Council not provide a Covid Contingency as proposed, the minimum level of Reserves will necessarily need to increase.
192. The statement below gives details of the General Reserves in hand at 01 April 2022, together with the proposed use of reserves in 2022/23 and 2023/24 arising from the Budget proposals contained within this report. The forecast balances from 2024/25 onwards **assume that the £6.0m savings requirements set out in the previous section are achieved according to the profile described.**

<b>General Reserves Forecast – Up to 2026/27</b>					
<b>Financial Year</b>	<b>Current Year</b>	<b>Forecast 2023/24</b>	<b>Forecast 2024/25</b>	<b>Forecast 2025/26</b>	<b>Forecast 2026/27</b>
	£m	£m	£m	£m	£m
<b>Opening Balance</b>	12.0	11.9	11.9	12.4	12.3
<b>In Year Surplus / (Deficit)</b>	(0.1)	0	0.5	(0.1)	0
<b>Forecast Balance</b>	<b>11.9</b>	<b>11.9</b>	<b>12.4</b>	<b>12.3</b>	<b>12.3</b>

193. The level of balances held over the period will be higher than the minimum level recommended in the short term. This prudent approach is being taken for a number of specific reasons, which include:
- The susceptibility of the Council's 3 Year Forecast to vary by +/- £5m due to the risks previously described
  - The strategy to "smooth out" and "spread out" the Council's necessary savings over longer periods of time, relying on the use of Reserves in some years whilst Savings requirements "catch up"
  - The continuing risks associated with the financial sustainability for both Adult Social Care and Children's Services. For example, should the recommended £3.9m savings not be achieved in 2023/24, General Reserves would be at minimum levels during the year.
  - The balances are predicated on further savings (as yet unidentified) of £6.0m being achieved over the following 3 years. If those savings are not made, balances would be close to minimum levels by March 2026.

- The uncommitted balance available in the Transformation Reserve of just £3.2m (see below) means there are only limited funds available to fund the implementation costs of future efficiency savings
  - The forecast full utilisation of the Covid Contingency by March 2026
194. General Reserves are anticipated to stabilise at circa £12m over the next 4 years. As previously described, it has been a key feature of the Council's MTFs to repair and gently build General Reserves so that they are available to draw on and "smooth savings" at lower levels but over a longer period of time as well as being available for financial shocks should they arise.
195. In addition to General Reserves, the Council has established a Transformation Reserve which has a current uncommitted balance of £3.2m. This reserve was established as one of the Council's primary vehicles to deliver savings. Often, transformation schemes aimed at significant cost reduction or income generation in line with the Administration's aspirations will be of a scale and complexity that require up front resources, especially if they are to proceed at pace.
196. It is anticipated that due to the nature and scale of some of the savings proposals in 2023/24, there will be a need to provide up-front funding from this reserve particularly for the Organisational re-design as well as savings and cost avoidance measures in Adult Social Care and Children's Services to support their delivery.
197. Maintaining the Transformation Reserve at sufficient levels to support savings delivery through "Spend to Save", "Invest to Save" and "Invest to earn" schemes is vital to the success of the MTFs and the Council's future Savings Requirements. Accordingly, a strategy for its replenishment is a necessity if this Reserve is to continue to deliver against its intended purpose.
198. Due to the serious financial constraints of the Council, the Council's future forecasts do not plan for any replenishment of the Reserve. It is advisable therefore, that should any further savings be made by year end, consideration be given at that time to any necessary replenishment.
199. The Council maintains a number of other reserves, many of a modest nature, in order to provide for known liabilities in the future. These include:
- The Highways PFI Reserve
  - Insurance and Risk Reserve
  - Repairs and Renewals Reserve
  - Business Rate Retention Reserve.
200. For the Council to meet the overall aim of its MTFs, it is important to strike the optimum balance between its key drivers of:
- Delivering savings (income, efficiencies and service reductions) over a manageable period of time which is consistent with maintaining good quality essential services

- Provide sufficient funding for Spend to Save, Invest to Save and Invest to Earn, initiatives through the Council's Transformation Reserve
- Ensure that the Capital Programme is sufficiently funded over the medium term to stimulate the Island Economy and improve the Council's overall financial position
- Maintaining General Reserves at levels that ensure strong financial resilience and financial health to provide a stable platform for all of the above.

201. To support this aim and ensure that maximum resources are available for the delivery of necessary savings, it is proposed that any further savings for 2022/23 that are made by year-end (after allowing for specific carry forward requests) be transferred to the Transformation Reserve, Revenue Reserve for Capital (to increase the Capital Resources available), Covid Contingency and General Reserves (to improve overall financial resilience), with the level of each transfer determined by the S.151 Officer.

## **CAPITAL PROGRAMME 2022/23 TO 2027/28**

### ***Overall Strategy***

202. As described in the Medium Term Financial Strategy (MTFS), the strategy is to maximise the capital resources available and then target the investment of those resources to areas that will enable the Council to meet its statutory responsibilities, stimulate the Island Economy and improve the Council's overall financial position.

203. The development of a Capital Strategy considers investments that will be made in the acquisition, creation, or enhancement of tangible or intangible fixed assets, in order to yield benefits to the council for a period of more than one year. It also considers how stewardship, value for money, prudence, sustainability and affordability will be secured. The Capital Strategy therefore has 3 core aims:

#### *Aim 1 - To support a Medium Term Outlook*

- allocating known resources to future years for critical capital investment, ensuring that in years where capital resources are limited, critical investment can continue to be made;
- aligning known resources and spending, ensuring that uncertain or forecast resources are not applied to current investment, thus leaving potentially unfunded obligations in the future; and
- smoothing out any significant gaps between capital investment needs and capital resources available by utilising contributions from revenue.

#### *Aim 2 - To Maximise the Capital Resources available and the flexibility of their application*

- setting aside capital funding for "match funding" opportunities, where these are aligned with the Council's strategic objectives in order to take advantage of "free" funding;
- reviewing contractually uncommitted schemes against newly emerging capital investment priorities;
- avoiding ring-fencing of capital resources, except where such ring-fencing is statutory; and
- using prudential borrowing for "Invest to Save" schemes, or schemes which generate income.

### *Aim 3 - Targeted Capital Investment*

- annual review of all contractually uncommitted capital schemes which rely on non-ring-fenced funding is undertaken to ensure that they remain a priority in the context of any newly emerging needs and aspirations;
- investment in programmes of a recurring nature that are essential to maintain operational effectiveness; and
- invest in specific schemes that:
  - have a significant catalytic potential to unlock the regeneration of the Island;
  - are significant in terms of the Council strategies that they serve;
  - are significantly income generating or efficiency generating; and
  - if not implemented would cause severe disruption to service delivery.

### **Capital Resources**

204. Capital resources available for 'new starts' in 2023/24 and onwards have been reviewed and the amount available to be allocated has been determined as £15m. This figure includes reallocated resources as a result of a review of contractually uncommitted schemes and the reprioritisation of projects.

205. Additionally, a small contingency has been retained to mitigate the risk of capital receipts and grants being lower than anticipated and some funding has been held back to meet unavoidable increases in costs to approved schemes and to support match funding bids for additional external funding.

206. The total capital resources available to the Council for 'New Starts' in 2023/24 and onwards are described below:

#### Corporate Capital Resources

207. This includes all non-ring-fenced capital grants (e.g. local transport plan, education basic need and school condition funding), capital receipts and revenue contributions and are described below:

- schools capital maintenance grant, which whilst not ring-fenced, is targeted at improvement of school's estate of £2.2m. In addition, the Devolved Formula grant, which is ring-fenced, is passported to schools in the sum of £263,000;
- capital receipts totalling £1.5m from the sale of council assets or the repayments of previous capital grants;
- reallocated resources of £1.9m from the review of contractually uncommitted schemes and the reprioritisation of projects; and
- other capital resources.

### Ring-fenced Capital Funding

208. Ring-fenced capital funding includes the following:

- funding of £2.3m is passported to the Better Care Fund which is targeted at Disabled Facilities Grants and wider Social Care programmes. This is required to be prioritised by the Council and the Isle of Wight Clinical Commissioning Group;
- grant funding of £2.1m from the Department of Transport Safer Roads Fund for works to the A3056; and
- grant funding of £2m from the Arts Council for a new cultural centre in Ryde.

### Prudential Borrowing

209. Prudential Borrowing is only available for a Council's "Primary Purpose for Investment" which must be "consistent with statutory provisions, proportionate to service and revenue budgets and consistent with effective treasury management practice".

210. The arrangements for Prudential Borrowing were strengthened following growing concerns over Local Government commercial property investments and taking on disproportionate levels of commercial debt to generate yield. Borrowing for "debt-for-yield investment" is not permissible under the Prudential Code, as it does not constitute the primary purpose of investment and represents unnecessary risk to public funds.

211. Prudential Borrowing is available for "Invest to Save" schemes only where those savings must accrue directly to the Council on a sustained basis. Prudential Borrowing is governed by the Prudential Code and its associated tests of affordability, sustainability and prudence. Prudential borrowing is what is termed "unsupported borrowing" and means that the Government does not provide any revenue support through government grant for the repayment of that debt (neither principal nor interest).

212. The Affordability test dictates that the Council must be able to demonstrate that it can afford the debt repayments over the long term. Given the future forecast deficits of the Council, prudential borrowing is only available for Invest to Save schemes where there is a demonstrable case that the capital expenditure

incurred will result in savings (i.e. cost reduction or additional income) that at least cover the cost of borrowing. Also, that those savings accrue directly to the Council and will be available on a sustained basis over the lifetime of any borrowing.

213. No new prudential borrowing has been included in the programme.

#### Capital Investment Proposals ("New Starts") – 2023/24

214. Proposals for the allocation of the Council's 'new start' capital resources of £15m are set out in Appendix 4 for approval. They comprise a balanced set of proposals which:

- ensure the medium term resilience of essential core services and facilities;
- supports the delivery of the council's key areas of activity focussing on the provision of housing affordable to Island residents, responding to climate change and enhancing the biosphere and economic recovery;
- complements the existing capital programme and further supports the council's financial viability for the medium term;
- invests in Schools;
- invests in care facilities including adaptations to peoples' homes; and
- invest in highways network works, the public realm and rights of way.

#### Proposed Capital Programme 2022/23 to 2027/28

215. The overall Capital Programme, including all existing schemes which have been reviewed and considered as a continuing priority, and proposed new schemes is set out in Appendix 5 for approval.

#### Future Capital Obligations, Priorities and Aspirations

216. The proposals for capital investment contained within this report complement the existing Capital Programme and provide further solidity to secure the Council's financial viability for the medium term. Nevertheless, the Council will inevitably face future obligations of a statutory nature as well as wish to further develop its priorities and aspirations for future capital investment to meet its overall aim of financial and public service sustainability.

217. Known obligations and aspirations, in line with the MTFS, for future capital investment once further capital resources become available include:

##### *Statutory Obligations:*

- Essential maintenance obligations for schools
- Provision of additional Disabled Facilities Grants
- Requirements to improve road safety, disabled access and air quality

- Improvements to rights of way and coastal protection

*Improving the Island Economy:*

- Further development of key employment, housing and regeneration sites
- Developing the Digital Island
- Coastal protection schemes to protect homes and businesses
- Improvements to road transport infrastructure as a means of supporting new business growth and productivity generally, as well as the protection of the tourism economy.

*Public Service Transformation:*

- Developing the Digital Council
- Further supported living facilities for Adult Social Care clients
- Use of technology to provide greater personal independence for those with care needs
- Developing the Council's commitment to work with partners and central government to ensure that the Island's net carbon emissions can be reduced to zero by 2030 as part of its climate emergency resolution.

218. The scale of the funding required for these obligations and aspirations is such that it far outstrips the annual capital funding which may be available. With core capital funding of circa £6.0m, there is a significant shortfall ("Capital Gap") to be met. All of the core funding has some degree of obligation attached to it, £2.5m is ringfenced to the Better Care Fund and Devolved Formula Grant, and the rest although not ringfenced, is expected to be targeted at schools and highways. The overall implication being that there is virtually no routine annual funding available for Capital Investment beyond those items described above.

219. Given the scale of the "Capital Gap" described above, the necessity to supplement the Capital Resources available remains an explicit feature of the Council's approved MTFs so that the Council can continue to fund essential services but also fund Regeneration and Income Generation schemes aimed at improving the overall financial sustainability of the Council and the economy of the Island. For this reason, it is recommended that the S.151 Officer be given delegated authority to transfer all or part of any further savings made in 2022/23 arising at the year-end to supplement the Capital Resources available for future years.

## **STATEMENT OF THE SECTION 151 OFFICER IN ACCORDANCE WITH THE LOCAL GOVERNMENT ACT 2003**

220. 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.
221. Section 25 of the Act concentrates on uncertainties within the budget year rather than the greater uncertainties in future years. In the current economic climate, there continue to be uncertainties in both the current and future years i.e. beyond 2023/24. Particular uncertainties exist regarding:
- The volatility and elevated levels of inflation
  - The increased levels of demand for Council Services being driven by the cost of living crisis
  - The continuing impact of the Covid pandemic, its impact on costs, Council Tax and Business Rate income levels
  - The general uncertainty surrounding Business Rate income including the forthcoming revaluation 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 in 2025/26)
  - 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

All of these uncertainties increase the need for adequate reserves and balances to be maintained in current and future years.

222. A minimum level of revenue reserves must be specified within the Budget. The Council must take full account of this information when setting the Budget Requirement.
223. Should the level of reserves fall below the minimum approved sum of £8.0m as proposed in this report, either arising from an overspend in the previous year or the current year, the S.151 Officer has a duty to report this to the Council with recommendations as to the actions that should be taken to rectify the shortfall. In the most extreme of circumstances, the S.151 Officer can impose spending controls until a balanced budget is approved by the Council.

### ***Robustness of the Budget***

224. In setting the Budget, the Council should have regard to the strategic and operational risks facing the Council. Some of these risks reflect the current economic climate and the national issues surrounding Local Authority funding levels.
225. Estimates and forecasts have been prepared to include all known significant financial factors over the medium term in order to inform spending decisions.
226. Assumptions for the Budget and forecasts for future years are considered to be sound and based on the best available information. These are set out in detail



under the Section entitled "Revenue Forecasts 2024/25 to 2026/27" and use the following sources as their evidence base:

- Government funding as set out in the provisional settlement for 2023/24
- An assumption that the overall outcome of the Fair Funding Review and Business Rate Retention scheme review will lead to a net reduction in funding of £1.0m
- No further increase in funding for the "Island Deal"
- A "no growth" assumption for Retained Business Rates from 2024/25 onwards, on the basis that any income arising from growth will be offset by appeals, reliefs and change of use
- An assumption that the value of successful appeals against the 2023 rating list will be based on the most up to date information from the Valuation Office Agency
- Increases in Council Tax based on what is likely to be acceptable and within expected referendum limits
- Inflation on Retained Business Rates and prices in accordance with inflation estimates from the OBR
- Specific provisions for increases in demand for both Adult Social Care and Children's Services based on current trends
- Prudential borrowing requirements based on approved Capital Schemes
- Revenue contributions to Capital based on known commitments and estimates of future needs
- Balances and contingencies based on a risk assessment of all known financial risks.

227. Savings contained within the Budget are those where Portfolio Holders and Directors assess the confidence level of achievement as medium and above. Savings proposals will also be subject to scrutiny by Members. Responsibility and accountability for delivering the savings rests with the relevant Portfolio Holders and Directors and progress will be monitored throughout the year as part of the Budget Monitoring process.

228. The most volatile budgets are those of Adult Social Care and Children's Services. Budget provision has been made available to cover these risks both directly within the Service Budget as well as within the Council's overall contingency provision.

229. The forecasts prepared for the forthcoming and future years are robustly based and illustrate the expected costs the Council will incur in order to deliver current levels of service.

230. Portfolio Holders will be given regular budget updates by Directors to ensure that action to address any potential variance is taken promptly and quarterly budget monitoring reports will continue to be presented to the Cabinet.

231. Prudential Indicators are accurately calculated based on the Council's audited Balance Sheet, notified income streams and in depth financial appraisals of proposed capital schemes. These are published and reviewed on a regular basis to ensure that the Council complies with the concepts of Affordability, Prudence, and Sustainability. The Council can only consider Prudential Borrowing for "Spend to Save Schemes", as it is currently unaffordable for any other purpose given the forecast budget deficits in 2024/25 and future years.
232. Future years' budgets will be particularly challenging due to continued cost pressures, the continuing legacy impact of the Covid pandemic, economic uncertainties and funding uncertainties. The Council's forecasts plan for a savings target of £2.0m in 2024/25, £2.0m in 2025/26 and £2.0m in 2026/27

### ***The Adequacy of Proposed Financial Reserves***

233. The Council's General Reserves have been proposed at levels that are consistent with the Council's financial risks over the medium term and take account of the level of the Council's Corporate Contingency as well as other earmarked reserves that are set aside for risk events such as the legacy of Covid, the Insurance Reserve, Repair and Renewals Reserve and the Business Rate Retention Reserve.
234. Reserves provide a buffer against unexpected costs such as pay awards, inflation, shortfalls in income and overspends and enable the Council to manage change without undue impact on the Council Tax or immediate reductions to services. They are a key element of strong financial standing and resilience as they mitigate risks such as increased demand and other cost pressures.
235. The level of General Reserves held will be higher than the minimum level required. This approach is in accordance with the approved MTFS in order to "smooth out" and "spread out" the necessary savings to meet the future forecast budget deficits in a planned and managed way. The current financial environment and the pace at which £20m of unplanned Budget Pressures arose has exposed the inadequacy of Council's overall financial resilience, making the compelling case for the increase in General Reserves of £1m and the importance of the MTFS to gently increase General Reserves over time. The position will continue to be reviewed and reported to Members on an annual basis.
236. The Transformation Reserve is the Council's primary vehicle for funding Spend to Save and Spend to Avoid Cost Initiatives and Feasibility Studies, and currently stands at just £3.2m. In order for this Reserve to continue in this capacity, it will be necessary to replenish it from any further savings, transfers from other reserves no longer required, or alternatively, from the Revenue Budget in future years.
237. The Council maintains a number of other Earmarked Reserves for specific purposes, all of which are at the levels required to meet known future commitments.

238. The Council's core contingency provision for 2023/24 has been set on a risk basis at £4.0m and reflects anticipated calls on the budget where the timing and value is not yet known. The use and application of the contingency will be exercised tightly.
239. At the proposed levels, the Council reserves are reasonably expected to be sufficient to accommodate the Council's financial risks and maintain the Council's overall financial health.

## **STRATEGIC CONTEXT**

240. The Council's Budget for 2022/23 and 2023/24, the level of Council Tax and the Capital Programme 2022/23 to 2027/28 represent the Council's detailed plan for 2023/24 and set the direction for the medium term. They are set within the context of the Council's approved Corporate Plan and Medium Term Financial Strategy (MTFS).

## **CONSULTATION**

241. The proposals set out in this report have been prepared in consultation with the Cabinet.
242. The Portfolio savings amounts proposed within this report will inevitably impact on service provision. Appendix 3 describes the indicative savings that might (or are likely) to be made in order to achieve the proposed savings amounts. Whilst some are likely to be implemented, there will be others that require consultation and appropriate Equality Impact Assessments to be considered before any implementation can take place. For this reason, any savings proposal set out in Appendix 3 can be altered, amended or substituted with an alternative proposal following appropriate consultation.
243. An Island-wide budget consultation took place over the period 22 December 2022 to 30 January 2023 as previously described. The Scrutiny Committee will also review the proposals contained within this report and have the opportunity to make their representations to the Cabinet.

## **FINANCIAL / BUDGET IMPLICATIONS**

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

## **LEGAL IMPLICATIONS**

245. The council will need to set a lawful and balanced budget and Council Tax level for 2023/24 by the statutory deadline of 11 March 2023. In developing any proposals for budget changes, the necessary Equality Impact Assessments and any consultation processes will need to be followed.
246. Section 106 of the Local Government Finance Act 1992 makes it an offence for a Councillor in council tax arrears (with at least two months unpaid bills) to vote

at a meeting of the Council where financial matters relating to council tax are being considered. It is also an offence if any such Councillor present, who is aware of the arrears, fails to disclose that they are in arrears of council tax. Members must therefore ensure that if they have such arrears, that they disclose this to the meeting.

## **EQUALITY AND DIVERSITY**

247. The Council has to comply with Section 149 of the Equality Act 2010. This provides that decision makers must have due regard to the elimination of discrimination, victimisation and harassment, advancing equalities, and fostering good relations between different groups (race, disability, gender, age, sexual orientation, gender reassignment, religion/belief and marriage/civil partnership).
248. The savings proposals set out within this report are proposals only for the purposes of setting Portfolio Cash Limits and the overall Council Budget. Whilst most are likely to be implemented, there will be some that require further consultation and appropriate Equality Impact Assessments to be considered before any implementation can take place. For this reason, Portfolio holders have the discretion to alter, amend or substitute any proposal with an alternative proposal following appropriate consultation. An Equality Impact Assessment will be annexed to the report to Full Council in respect of the relevant proposals that arise out of these recommendations.

## **PROPERTY IMPLICATIONS**

249. The property implications contained within this report seek to improve the sufficiency, condition and efficiency of the Council's existing property estate. Proposals for land acquisitions are intended to provide sites for regeneration and employment and will only be purchased after full and proper due diligence. Any potential new build or property acquisition proposals will be the subject of a full financial appraisal and proper due diligence.

## **OPTIONS**

250. The proposed Budget for 2022/23 and 2023/24, associated Savings Requirements, use of General Reserves and the Capital Programme have been prepared in accordance with the Council's approved Medium Term Financial Strategy (MTFS). These proposals are presented as a cohesive and interrelated package of measures aimed at providing the maximum opportunity to meet the financial challenge faced by the Council. The options available within a cohesive Financial Strategy are:

### **A. In respect of the Revenue Budget 2023/24:**

- i) Approve the recommendations set out in this report
- ii) Reduce the proposed increase in Council Tax and increase the level of savings noting that every 1% reduction in Council Tax will require an increase in savings of £936,300

- iii) Increase the use of General Reserves used in 2023/24 and reduce the level of savings accordingly, acknowledging that:
  - (a) In doing so, the level of savings in 2024/25 and future years will increase providing an uneven profile of savings, which is contrary to the approved MTFs, and the Council's financial resilience will reduce at a time of unprecedented inflationary volatility, service demands arising from the rising cost of living and uncertainty for the future of Local Government funding
  - (b) The minimum level of Reserves to be maintained will need to be increased in response to the increase in financial risk
- iv) Amend the allocation of Savings Requirements between Portfolios by reducing savings in one or more Portfolios and providing replacement savings of equivalent value in one or more other Portfolios
- v) A combination of options (ii) to (iv) above
- vi) Set a Council Tax for General Purposes at a level above 4.99% and undertake a local referendum.

**B. In respect of the Capital Programme 2022/23 to 2027/28 as set out in Appendix 5:**

- i) Approve the recommendations set out in this report
- ii) Amend the proposed "New Start" Capital Schemes by reducing / deleting proposed Capital Schemes and replacing with alternative Capital Schemes of equivalent value
- iii) Amend the proposed "New Start" Capital Schemes by reducing / deleting Capital Schemes and retaining the amount of Corporate Capital resources available for future Capital Programmes
- iv) Amend the proposed "New Start" Capital Schemes by reducing / deleting Capital Schemes and reducing the funding provided from Corporate Reserves and retaining those funds in General Reserves to provide additional financial resilience to the Council.

## **RISK MANAGEMENT**

251. The financial challenge is the single biggest risk to sustainable public services on the Island. Accordingly, the Council needs to resolutely maximise the deployment of the resources that it does have (Revenue, Capital, Property and Staff) towards driving additional income / funding and cost savings to secure Council Services for the future. The Budget and Council Tax proposals set out in this report are part of a cohesive plan which conforms to the Council's approved Medium Term Financial Strategy (MTFS). The strategy provides both structure and direction to achieve the financial challenge in a way that is aligned with the Council's corporate objectives and minimises cuts to essential services.

252. The key risk is that the Council does not approve a Revenue Budget for 2023/24 and a Capital Programme that conforms to its MTFs, and as a consequence the approach to cost savings / additional income / funding is disorderly with sub optimal decisions taken which lead to greater than necessary cuts to essential services. Furthermore, that proposed amendments relating to reductions in the level of Council Tax or increases in the use of General Reserves are "unbalanced" which ultimately compromise the financial health and resilience of the Council and as a consequence jeopardise the future of Council Services.
253. The robustness of the Budget and Adequacy of Reserves is described in the section entitled "Statement of the Section 151 Officer in Accordance with the Local Government Act 2003".
254. Key risks relating to the Capital Programme are any amendments to the proposed programme to:
- Delete or reduce operationally essential schemes which have the potential to compromise IT system integrity and support and create serious disruption to Council Services
  - Delete or reduce operationally essential schemes which have the potential to close buildings from which Council Services operate
  - Delete or reduce schemes which are of a critical Health & Safety nature
  - Delete or reduce schemes of a cost avoidance, income generating or regeneration nature which could compromise the future financial viability of the Council and delivery of essential services
  - Delete or reduce Coastal Defence schemes, jeopardising external investment from the Environment Agency and therefore place homes and businesses at risk.

## EVALUATION

255. Option **A (i)** and **B (i)** are recommended. The Budget and Council Tax proposals set out in this report are part of a cohesive plan which conforms to the Council's approved Medium Term Financial Strategy (MTFS) and is consistent with the Council's Corporate Plan. In particular:
- It proposes a Budget that is in "Structural Balance"
  - It provides £11.9m of additional funding for Adult Social Care and Children's Services, bringing financial stability to those essential services at a critical time
  - It provides a Covid Contingency expected to be sufficient to cover the financial impact of the pandemic over the next 3 years, providing financial resilience through an uncertain period and therefore a good degree of confidence in the sustainability of essential Council Services
  - It provides for a "smoothing" and "spreading" of savings over a planned period enabling the Council to maximise its operational capacity to implement initiatives aimed at increasing income / funding and reducing costs and providing time for the "alternative to cuts" initiatives to take effect

- It maintains the overall Savings Requirements for future years at £2.0m per and evenly phased
- Improves the overall financial resilience of the Council at a time of financial and economic volatility and unprecedented uncertainty in terms of both future cost and funding, enabling the Council to guard against more immediate and deeper savings
- An increase in Council Tax of 4.99% avoids further cuts to essential services to residents and improves the funding base for the future
- Ensures that sufficient funding is available to enable, or "pump prime" Spend to Save (Revenue) and Invest to Save (Capital) schemes as one of the primary vehicles to address future savings requirements
- Provides £15m Capital Investment, which in particular, will enable the Council to improve school facilities, provide further support to vulnerable residents to stay in their home safely and increase the level of temporary accommodation to Island residents.

## RECOMMENDATION

256. It is recommended that the Council approve the following:

- (a) The revised Revenue Budget for the financial year 2022/23 and the Revenue Budget for the financial year 2023/24 as set out in the General Fund Summary (Appendix 1) which includes:
  - (i) Additional spending in Adult Social Care of £7.6m and Children's Services of £4.3m
  - (ii) No Revenue Contribution to Capital in 2022/23 or 2023/24
  - (iii) The Covid Contingency estimated at £4.2m, to guard against continuing and legacy risks
- (b) Any variation arising from the Local Government Finance Settlement 2023/24 or any further savings made in 2022/23 arising at the year-end (after allowing for specific carry forward requests) be transferred to the Revenue Reserve for Capital, Covid Contingency, Transformation Reserve, and General Reserves with the level of each transfer to be determined by the S.151 Officer.
- (c) That the level of Council Tax be increased by 2.99% for general purposes in accordance with the referendum threshold<sup>4</sup> for 2023/24 announced by Government (as calculated in Appendix 2)
- (d) That the level of Council Tax be increased by a further 2.0% beyond the referendum threshold (as calculated in Appendix 2) to take advantage of the flexibility offered by Government to implement a "Social Care Precept"; and that in accordance with the conditions of that flexibility, the full amount of the associated sum generated of £1,872,500 is passported direct to Adult Social Care
- (e) That the amounts set out in Appendix 2 be now calculated by the Council for the financial year 2023/24 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992
- (f) The S.151 Officer be given delegated authority to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Police & Crime Commissioner, Hampshire & Isle of Wight Fire & Rescue Authority and Parish and Town Council precepts, and amend the calculations set out in Appendix 2 accordingly
- (g) The savings proposals for each Portfolio amounting, in total, to £3.895m for 2023/24 and continuing into future years as set out on the next page:

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<sup>4</sup> Council Tax increases beyond the referendum threshold can only be implemented following a "Yes" vote in a local referendum



Portfolio	Controllable Budget	Savings Proposal	
	£	£	%
Adult Social Care & Public Health*	54,438,981	1,243,500	2.3%
Children's Services, Education & Lifelong Skills*	28,695,978	299,000	1.0%
Climate, Environment, Heritage, HR, Legal & Democratic Services	7,812,210	128,000	1.6%
Community Protection, Regulatory & Waste	9,471,672	430,000	4.5%
Digital Transformation, Housing, Homelessness & Poverty	9,306,890	255,000	2.7%
Infrastructure, Highways PFI & Transport **	12,658,707	536,600	4.2%
Leader & Strategic Oversight	732,911	150,000	20.5%
Levelling Up, Regeneration, Business Development & Tourism	4,816,254	130,000	2.7%
Planning & Enforcement	2,646,087	45,000	1.7%
Strategic Finance, Transformational Change & Corporate Resources	9,339,164	677,900	7.3%
<b>Grand Total</b>	<b>139,918,854</b>	<b>3,895,000</b>	<b>2.8%</b>

\* Excludes the additional funding passported through to Adult Social Care of £7.6m (which if included would result in an overall increase of 11.6%) and the additional funding for Children's Services, Education & Lifelong Skills of £4.3m (which if included would result in an overall increase of 14.0%)

\*\* Excludes £19.4m of PFI grant funding, on a gross expenditure basis the saving amounts to 1.7%

- (h) Directors be instructed to start planning how the Council will achieve the savings requirements of £6.0m for the 3 year period 2024/25 to 2026/27 and that this be incorporated into Service Business Plans
- (i) The minimum level of Revenue Balances as at 31 March 2024, predicated on the approval of £3.895m savings in 2023/24 and the retention of the Covid Contingency of £4.2m, be set at £8.0m to reflect the known and expected budget and financial risks to the Council
- (j) Members have regard for the "Statement of the Section 151 Officer in accordance with the Local Government Act 2003"
- (k) The new Capital Investment Proposals ("New Starts") - 2023/24 set out in Appendix 4 be reflected within the recommended Capital Programme 2022/23 to 2027/28 and be funded from the available Capital Resources
- (l) The Capital Programme 2022/23 to 2027/28 set out in Appendix 5 which includes all additions, deletions and amendments for slippage and re-phasing

- (m) The allocation of Disabled Facilities Grants be made to the Better Care Fund, and reflected within the recommended Capital Programme 2022/23 to 2027/28
- (n) The S.151 Officer be given delegated authority to determine how each source of finance is used to fund the overall Capital Programme and to alter the overall mix of financing, as necessary, to maximise the flexibility of capital resources used and minimise the ongoing costs of borrowing to the Council
- (o) That the S.151 Officer in consultation with the Leader of the Council be given delegated authority to release capital resources held back for any contingent items that might arise, and also for any match funding requirements that may be required of the Council in order to secure additional external capital funding (e.g. bids for funding from Government or any other external source).
- (p) The Capital Strategy 2023/24, including the Minimum Revenue Provision Statement contained therein (Appendix 6)
- (q) The Investment Strategy 2023/24 (Appendix 7)

257. It is recommended that the Council note the following in respect of the Council's Budget:

- (a) The Revenue Budget 2023/24 as set out in Appendix 1 has been prepared on the basis of a 4.99% increase in Council Tax, any reduction from the overall 4.99% Council Tax increase proposed will require additional savings of £936,300 for each 1% reduction in order for the Budget 2023/24 to be approved
- (b) The Revenue Forecasts for 2024/25 onwards as set out in the section entitled "Revenue Forecasts 2024/25 to 2026/27" and Appendix 1
- (c) The estimated Savings Requirement of £6.0m for the three year period 2024/25 to 2026/27, for financial and service planning purposes, be phased as follows:

<b>Financial Year</b>	<b>In Year Savings Requirement £m</b>	<b>Cumulative Saving £m</b>
2024/25	2.0	2.0
2025/26	2.0	4.0
2026/27	2.0	6.0

- (d) The Transformation Reserve held to fund the upfront costs associated with Spend to Save Schemes and Invest to Save Schemes holds a very modest uncommitted balance of £3.2m and will only be replenished from

contributions from the Revenue Budget and an approval to the transfer of any further savings at year end

- (e) Should the Council elect to reduce the level of savings below £3.895m in 2023/24 (and £2.0m p.a. thereafter), the Council's financial risk will increase and therefore the minimum level of General Reserves held will also need to increase in order to maintain the Council's financial resilience
- (f) The Council Tax base for the financial year 2023/24 will be 54,087.0 [item T in the formula in Section 31 B(1) of the Local Government Finance Act 1992, as amended (the "Act")].
- (g) The Council Tax element of the Collection Fund for 2022/23 is estimated to be in deficit by £848,700\* which is shared between the Isle of Wight Council (85.4%) and the Police & Crime Commissioner (11.1%) and the Hampshire & Isle of Wight Fire & Rescue Authority (3.5%)
- (h) The Business Rate element of the Collection Fund for 2022/23 is estimated to be in deficit by £334,500 of which is shared between the Isle of Wight Council (49%), the Hampshire & Isle of Wight Fire & Rescue Authority (1%) and the Government (50%)
- (i) The Retained Business Rate income<sup>5</sup> for 2023/24 based on the estimated Business Rate element of the Collection Fund deficit as at March 2023, the Non Domestic Rates poundage for 2023/24 and estimated rateable values for 2023/24 has been set at £41,958,105.
- (j) The Equality Impact Assessment (attached at Appendix 8)

\*Includes a deficit of £578,900 which under regulation was allowed to be spread over 3 years and is shared on a different basis

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<sup>5</sup> Includes Retained Business Rates of £16,994,458, "Top Up" of £12,028,784, S.31 Grants of £13,098,779 a Collection Fund deficit of £163,916

## APPENDICES ATTACHED

258. The following appendices are attached:

- Appendix 1 - General Fund Summary
- Appendix 2 - Council Tax 2023/24 (calculated by the Council for the financial year 2023/24 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992, and to be updated for Town and Parish Precepts once they are available)
- Appendix 3 - Indicative Savings 2023/24
- Appendix 4 - New Capital Schemes starting in 2023/24
- Appendix 5 - Capital Programme 2022/23 to 2027/28
- Appendix 6 – Capital Strategy 2023/24
- Appendix 7 – Investment Strategy 2023/24
- Appendix 8 – Equality Impact Assessment

## BACKGROUND PAPERS

259. The following background papers have been relied upon in preparing this report.

- (a) The Council's approved Medium Term Financial Strategy can be found at: <https://www.iwight.com/Meetings/committees/mod-council/19-10-16/Paper%20B.pdf>

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