



# Full Council Report

## ISLE OF WIGHT COUNCIL

Date **28 FEBRUARY 2024**

Title **BUDGET AND COUNCIL TAX SETTING 2024/25 AND FUTURE YEARS FORECASTS**

Report of **THE LEADER OF THE COUNCIL AND CABINET MEMBER FOR TRANSPORT AND INFRASTRUCTURE, HIGHWAYS PFI AND TRANSPORT STRATEGY, STRATEGIC OVERSIGHT AND EXTERNAL PARTNERSHIPS**

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## EXECUTIVE SUMMARY

1. Since May 2021, the Administration has listened and responded to the many challenges the Council faces to deliver a positive future for the Island and its community. The Administration's stated priority is to work together openly with the community to support and sustain our economy, environment and people.
2. The Cabinet'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 absence of funding keeping pace with inflation and pressures in Social Care has made that impossible. In fact, over the past 13 years the Council has had to find savings of £97m.
3. Despite the extreme financial pressures, there are proposals by the Cabinet to re-invest in services for the community generally as well as supporting small business innovation being the "heartbeat" of the Island economy. The Cabinet's proposals include the following two funds:
  - i) Community Capacity and Resilience Fund - £0.25m  

This is intended to strengthen overall community capacity and resilience, working with partners and the voluntary sector and building on the good work that has been achieved through government funded programmes (Household Support Fund/Family Hubs etc.). It should be used to enable the voluntary and community sector to intervene where there are gaps in provision and supporting individuals and families to become self-sustaining; to empower residents to have better control over their lives.
  - ii) Place/Towns Initiative Fund - £0.2m

This is a fund to support the delivery of the place plans that have been or are being delivered in areas across the Island; providing capital investments to support local initiatives identified in these local plans. It is intended that the fund will work alongside the other funding opportunities that communities can access and will provide pump priming for local projects. The aim is to support an improvement in the prosperity of the Island's communities.

4. The Local Government financial envelope set by the Government in their Comprehensive Spending Review 2021 for the period 2022/23 to 2024/25 did not foresee the elevated and prolonged levels of inflation of the past 2 years.
5. Within 6 months of the Comprehensive Spending Review being set in the Autumn of 2021 and just 1 month before it came into effect, the financial environment changed rapidly precipitated by the war in Ukraine and other economic factors causing inflation to escalate rapidly across the globe. The enduring impact of elevated inflation has led to unavoidable and unplanned cost increases in the delivery of Council Services as well as a "cost of living crisis" for residents which, in turn, has increased the demand for Council Services. These effects are being experienced in the current year and illustrated by the reported overspendings particularly across the Care Services and will endure into next year and beyond.
6. Despite this climate of increased cost and demand, the funding envelope for local government has remained unchanged. Consequently, the Budget setting process over this period has been some of the most challenging that the Council has experienced and has rendered the aspirations of the Administration to avoid savings impossible. In stark contrast, the financial position of the Council, prior to the recent announcement of additional funding was such that the Council faced a Budget Deficit for 2024/25 of £8.5m. This deficit being after applying an increase in Council Tax of 4.99% in accordance with the Government's own assumptions.
7. Rising cost pressures and constrained funding is a feature across Local Government as a whole, with services such as Adults Social Care, Children's Services and Homelessness experiencing the most severe increases in price, demand and therefore cost and resulting in all councils needing to continue to make substantial budget savings.
8. For 2024/25, additional spending of £11.3m in Children's Services and Adult Social Care alone is required next year simply to maintain services at existing levels. This increase is represented by the inflation and demand "hangover" of the current year of £4.9m carrying through into next year plus further inflation and demand pressures for next year itself; the most significant of which relates to the 9.8% increase in the National Living Wage (a further £4m) which is passed over to providers of care supporting those residents whose care is paid for by the Council.
9. Until the recent announcement of £600m of additional funding to Local Authorities by the Secretary of State on 24 January 2024, the Government had adhered to the Comprehensive Spending Review 2021, and not provided any relief for the extraordinary inflation and demand pressures being experienced by Councils over this 3 year period up to and including 2024/25.

10. Prior to the announcement of the £600m, the Provisional Local Government Finance Settlement, provided an increase in funding for Social Care generally of £3.1m, this was pre-announced and part of the Comprehensive Spending Review and intended to cover the new burdens associated with "Market Sustainability and Fair Cost of Care" set out in the white paper "People at the Heart of Care". In addition, the funding was provided to enable the Council to support Hospital Discharge, which itself therefore added costs to the Council. The funding was not provided for general increases in cost and demand.
11. Of the announced increase in funding, £500m is ringfenced for Adult and Children's Social Care. The written statement of the Secretary of State set out that:

*"It will enable councils to continue to provide crucial social care services for their local communities, particularly for children"*

*"Where possible, councils should invest in areas that help place children's social care services on a sustainable financial footing, whilst being mindful of the level of adult social care provision. This includes investment in expanding family help and targeted early intervention, expanding kinship care, and boosting the number of foster carers. This increase in funding will be reflected in the local authority allocations published at the final Local Government Finance Settlement."*

*"This funding, in turn, will reduce pressures on other areas of children's services such as home to school transport, where we recognise there has been a significant increase in pressures for special educational needs and disability services."*

12. For the Council the increase in Social Care funding has been confirmed at £1.6m, resulting in total Social Care funding from Government of an additional £4.7m in 2024/25.
13. Whilst funding from Government for Social Care generally has increased by £4.7m, the Cabinet are proposing to increase spending in Adult and Children's Social Care by £11.3m, resulting in a Social Care Funding Gap of £6.6m. The increase of £11.3m will just maintain current service levels and ensure that the financial position of these services remains robust in the short and medium term.
14. The Settlement also confirmed the flexibility to increase Council Tax by an additional 2% (over the 3.0% limit for general purposes) for Adult Social Care and amounting to £2.0m, providing some limited relief to the £6.6m Social Care Funding Gap.
15. The recent announcement by the Secretary of State also mentioned additional funding for the Isle of Wight Council specifically as follows:

*"In recognition of the unique circumstances facing our island authorities, and their physical separation from the mainland, we will be increasing funding to the Isle of Wight and Isles of Scilly. We will set out full details at the final Settlement."*

The Final Settlement was announced on 05 February 2024 and it has been confirmed that the additional sum for the Council is £3m (taking the total funding received relating to physical separation to £4m).

16. It was originally anticipated that the Council's Budget Savings requirement for 2024/25 would be £2m. Given the financial distress being experienced particularly in Adult and Children's Social Care in the current year, the S.151 Officer reported to the Corporate Scrutiny Committee on 07 November that to avoid the Council entering the following year 2024/25 with a "Structural Deficit", the Council would need financial relief from a combination of the following:
- i) Additional funding for Social Care
  - ii) Further funding to accommodate the additional costs of providing council services due to physical separation
  - iii) Manage and mitigate the Budget pressures being experienced.
17. Following the announcement of the provisional Local Government Settlement on 18 December 2023, the Council's S.151 Officer advised the Corporate Scrutiny Committee on 09 January 2024 that:

*"It is also deeply concerning that the increased funding for Social Care is significantly lower than the cost pressures that the Council will face next year in those Services."*

18. *"Due to the significant increase in costs of Social Care as well as inflation more generally experienced across the current year and continuing into future years, it is inevitable that the savings requirements for 2024/25 will need to amount to at least £3m."*
19. In summary, and subject to final confirmation of the final Local Government Finance Settlement, the proposed Budget for 2024/25 has been prepared on the following basis:

<b>Budget</b>	<b>2024/25 £m</b>
<b>Deficit (prior to funding announcement 24 January 2024 and assuming a 4.99% Increase in Council Tax)</b>	<b>8.5</b>
Additional Social Care Funding	(1.6)
Additional Islands Funding	(3.0)
Savings Proposals 2024/25	(2.7)
<b>Structural Deficit - To be met from General Reserves</b>	<b>1.2</b>

Despite the additional funding from Government, an increase in Council Tax of 4.99% and savings proposals amounting to £2.75m, the Council will still enter 2024/25 with a "Structural Deficit" and needing to draw on General Reserves of £1.2m.

20. The level of savings at £2.75m has incorporated the financial impact of the Council's recent decision to increase the maximum support through the Local

Council Tax Support scheme to 75% and to remove the exceptional hardship fund. For the second year in succession, the S.151 Officer reminds the Council that to demonstrate the rationality of its decisions, exercise proper financial governance and not place the Council at undue risk, those decisions must be properly informed and cognisant of the Council's financial position and as exemplified earlier in this report. These are key determinants when considering the rationality of decisions. This decision by the Council was taken in the absence of:

- i) An understanding of both the financial implications to the Council and the impact that compensating savings would have on the delivery of Council services
- ii) Whether in fact, the decision to remove the hardship fund would render the scheme inchoate or not whole given its primary purpose.

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.

21. In this regard, it is imperative that in considering the Budget for 2024/25 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.
22. The Social Care pressures of £11.3m plus a further £8.2m of unavoidable costs across all other Council Services resulting from the substantial and prolonged financial impact of inflation has culminated in total additional costs for the Council of £19.5m in 2024/25. These are the driving factors behind the challenges of setting a Budget for 2024/25 which requires the Council to make such a significant withdrawal from Reserves to balance the Budget.
23. In proposing this Budget to Full Council, significant reliance is still being placed on the Covid Contingency to manage current and future Budget Pressures and Risks associated with Adult Social Care in particular but also for the Leisure Service. The Covid Contingency was established on the basis that Covid related costs would "wind out" over time and the use of the Reserve would match the costs until they ceased. Associating costs with the Covid pandemic is becoming subjective and it is becoming increasingly unclear whether Covid related costs will "wind out" or if they have become embedded within the Council's cost base. It is anticipated that the remaining funding within the Covid Contingency of £5m will be sufficient to support the Council's budget for the next 2 years at which time it will be exhausted.
24. The Council must be narrowly, if not singularly, focussed on addressing its medium term Budget Deficit if it is to plan responsibly for the future delivery of the Councils' statutory duties. The imperative is for the Council to maintain a record of responsible financial management and to achieve a "structurally balanced" Budget in the future. Looking ahead to 2027/28 it is forecast that the Council will have a 3 Year Deficit of £3m and assuming:

- i) An "Island Funding" award of an additional £3m (i.e. £4m in total)
- ii) Budget Savings in 2024/25 of £2.75m
- iii) Assumed Council Tax increases of 4.99% per annum, representing 2.99% for general purposes and 2% for Adult Social Care in 2024/25 and an equivalent 4.99% for all future years of the Forecast
- iv) Adoption of a 100% Council Tax premium for second homes amounting to £4.2m from April 2025.

The combination of these factors has substantially improved the Council's future forecast financial position and mitigated the scale of the future Budget Deficit upon which savings are based.

Based on these assumptions, the Council is forecast to achieve a "structurally balanced" Budget in 2025/26 although the Council's General Reserves will have been reduced to £10.9m in 2024/25, leaving "headroom" above the minimum level of reserves (£8m) for financial risk of just £2.9m.

- 25. The Council should take every opportunity to restore its General Reserves "headroom" to £4m or more to guard against known uncertainty and financial shocks such as those experienced over the past 2 years and which rapidly saw the Council experience over £30m of unplanned financial pressures. Underlying General Reserves at £10.8m over the medium term are extremely modest and represents just 2.5% of total gross expenditure.
- 26. Whilst the £3m Deficit is a "central base case" assumption for the Council's future forecast, there remains risk attached to this forecast which could vary between +/- £5m due to cost risks and funding uncertainty. The most significant risks are:
  - i) The impact on Council Services of the prolonged elevated levels of inflation both on its own costs and in demand for Council Services
  - ii) Unavoidable cost pressures that 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 review of Local Government Funding described below.

Taking these risks together, the Forecast Budget Deficit has the potential to vary by between +/- £5m, which when spread over 3 years, would therefore amount to annual savings requirements of £1m p.a. (central base case annual sum) +/- £1.67m per annum.

- 27. Given the uncertain nature of the Forecast Budget Deficit for future years, the forecast of £1m savings for the years 2025/26, 2026/27 and 2027/28 must be considered as indicative at this stage.
- 28. The review of Local Government Funding is now anticipated to take place in 2026/27 at the earliest and has the potential to adversely affect the Council's funding level. The funding review 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 £4m) and re-distributing that growth nationally according to relative need (rather than where it was generated).
29. The Council's proposed Budget for 2024/25 will inevitably carry substantial risk seeking to accommodate the uncertain inflationary environment, the continuing pressures in Social Care and the increasing demands for Council Services arising from the "cost of living crisis", all making a compelling case for maintaining the minimum level of General Reserves to be held of £8m.
30. During this unprecedented level of uncertainty, it is imperative that the Council continues to exercise financial restraint and manage its cost base carefully if it is to remain well placed to respond to any inflation and service demand volatility as well as the review of Local Government Funding. Equally, the Council should seek to restore its General Reserves to a level of at least £12m, providing a more prudent level of "headroom" for risk against the minimum level of £8m.
31. Capital funding is particularly constrained for 2024/25, 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 £9.3m, of which just £1.4m is provided from Corporate Capital Resources with external funding amounting to £7.9m.
32. Key additional investments proposed in this Capital Programme include:
- £2.1m for Schools Capital Maintenance
  - £1.8m for adaptations to disabled residents' homes to enable them to remain in their own homes
  - £0.8m for vehicle fleet replacement to electric vehicles
  - £0.5m provision for structure and drainage works associated with Osborne Steps
  - £0.4m for improvements at a council re-ablement facility providing support for older people to return to an independent life in their own homes
  - £0.4m for Highways Drainage schemes to reduce flooding
  - £0.4m for Rights of Way to renew the network and for reinstatement works after the recent flooding and storm events
  - £0.3m for Coastal Protection
  - £0.2m for a Place / Town Initiatives Fund.
33. The key proposals within this report are for a balanced Budget for 2024/25 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 2024/25
  - £2.75m of savings to meet:
    - i) The Council resolution of 22 February 2023 - £2m
    - ii) The extra-ordinary Budget Pressures driven by the Social Care Funding Gap that the Council has been unable to mitigate
    - iii) The financial impact of the Council's preference to increase the maximum support to the Council's Local Council Tax Support Scheme, offset by the removal of the Exceptional Hardship Fund - £0.25m
  - 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 £6.3m and increased spending in Children's Services of £5.0m, (totalling £11.3m) being greater than the funding provided by the Adult Social Care precept and the additional Social Care Grant from Central Government (totalling £6.7m)
  - Draw down from General Reserves of £1.2m
  - A Covid Contingency of £5m, sufficient to support the Budget and Adult Social Care spending for the next 2 years
  - A forecast £3m Budget Deficit for the 3-year period to 2027/28 but which could vary between +/- £5m
  - A minimum savings requirement for 2025/26 of £1m but with any future year's savings beyond 2025/26 subject to review at next year's Annual Budget Meeting (February 2025)
  - "Structural Budget Balance" anticipated to be achieved in 2025/26 but predicated upon implementing a 100% Council Tax premium on second homes from April 2025 and the continuation of the "Island Funding" at £4m in total
  - New Capital Investment on the Island of £9.3m
  - A level of General Reserves over the period of the 3-year forecast of circa £11m (but recognising the substantial uncertainty faced by the Council over that period).
34. Finally, the Council will continue to make the case to Central Government to fully recognise the additional costs of providing Council Services on the Isle of Wight due to its physical separation from the mainland. The latest estimates made by the Council, based on national data sets, are that it costs an additional £23.7m to provide services across the Council's major spending areas compared to the average of the Council's statistical neighbours. Government are yet to be convinced that the full extent of those additional costs arise as a direct result of physical separation. The current uplift in funding of £4m therefore is considered by the Council as an initial starting point for future discussions with Government.
35. A Cabinet Summary of these key points and others is set out on the next page:



## CABINET SUMMARY

### Context

- ❖ Since 2011/12, savings of £97m 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 almost 70% 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
- ❖ Funding levels (e.g. Government Funding, Council Tax and Business Rates) have not kept pace with the cost pressures arising from prolonged levels of inflation and the ensuing "cost of living crisis"
- ❖ 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 prolonged inflation and its volatility, cost of living related increases in demand for services and the forthcoming review of the Local Government Funding system.

### Revised Budget 2023/24

- ❖ A Balanced Budget for 2023/24 but requiring a contribution from General Reserves of £0.9m
- ❖ Provision for Covid costs and income losses as follows:
  - Adult Social Care - £2.1m
  - Leisure Services - £0.3m
- ❖ Provision for forecast overspendings (excluding Covid related costs) as follows:
  - Children's Services - £3.9m
  - Adults Social Care - £3.3m

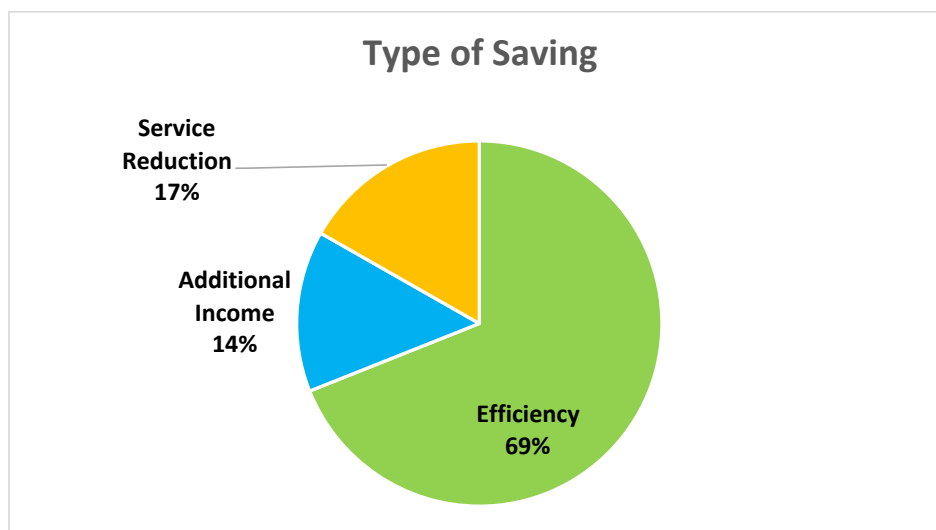
### Budget 2024/25

- ❖ 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 next page)

## CABINET SUMMARY (Continued)

### Budget 2024/25 (continued)

- ❖ A Balanced Budget but requiring a withdrawal of £1.2m from General Reserves
- ❖ Total Savings of £2.75m necessary to offset the extraordinary costs of inflation and demand related pressures and a reduction in Council Tax of £0.25m arising from the preference to increase Local Council Tax Support from a maximum of 70% to 75%
- ❖ 83% of the £2.75m Savings are delivered through Efficiencies and Income Generation and 17% achieved through service reductions. This analysis is presented as follows:



- ❖ Additional Spending in Adult Social Care of £6.3m (to cover the uplift in the National Living Wage of 9.8% that will be passported to care providers as well as all other cost and inflationary pressures)
- ❖ Additional Spending in Children's Services of £5.0m (to cover existing overspendings and other unavoidable cost pressures)
- ❖ An inflationary uplift for all Services to maintain "steady state" provision amounting to £2.9m (excluding Adult Social Care and Children's Services above)
- ❖ Additional Government Funding of £6.8m for 2024/25, with £4.7m provided for Social Care, £3.0m of additional Island Funding but a cut for all other services of £0.9m (plus no funding for inflation for other services which is running at 4%)
- ❖ Creation of a £0.25m Community Capacity and Resilience Fund
- ❖ A Council Tax increase of 4.99%, of which:
  - 2.99% is for general council services (at lower than inflation which peaked at 8.7% and is currently at 4%)
  - 2.0% (amounting to £2.0m) is to be passported directly to Adult Social Care
- ❖ An overall Social Care Funding Gap of £4.6m between Adult Social Care and Children's Services unavoidable costs of £11.3m and the funding available of £6.7m (i.e. **2% Adult Social Care Council Tax Precept of £2.0m plus additional Social Care Grants of £4.7**).
- ❖ A Covid Contingency of £5m, sufficient to support the Budget and Adult Social Care spending for the next 2 years
- ❖ General Reserves falling to £10.9m.

## CABINET SUMMARY (Continued)

### Future Forecast - 2025/26 to 2027/28

- ❖ The Council must be narrowly, if not singularly, focussed on addressing its medium term Budget Deficit if it is to plan responsibly for the future delivery of the Councils' statutory duties
- ❖ The new forecast for the new 3 Year Period to 2027/28 of a £3m Deficit but predicated on:
  - The Budget proposals in 2024/25 for £2.75m savings and a 4.99% increase in Council Tax
  - Continuation of the additional "Island Funding" award of £3m p.a. (£4m p.a. in total)
  - Council Tax increases of 4.99% per annum, representing 2.99% for general purposes and 2% for Adult Social Care
  - Adoption of a 100% Council Tax premium for second homes amounting to £4.2m from April 2025
- ❖ A minimum Budget Savings amount for 2025/26 of £1m
- ❖ Indicative Budget Savings of a further £1m p.a. for 2026/27 and 2027/28
- ❖ Potential for the "Forecast Deficit" of £3m to vary between +/- £5m due to the considerable uncertainty associated with inflation, unavoidable cost pressures (particularly in Care Services), business rate appeals and the forthcoming review of Local Government Funding
- ❖ 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
- ❖ General Reserves are maintained over the period at not lower than £10.8m (**and assume the £1.0m p.a. savings are achieved**), providing a very 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 £1.0m 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 is £8.0m based on its risk profile, and crucially the £2.75m savings proposed within this report.
- ❖ If General Reserves fall below £8.0m, a S.114 notice is likely to be served
- ❖ A draw from General Reserves in 2023/24 of £0.9m
- ❖ A draw down on General Reserves in 2024/25 of £1.2m
- ❖ Reserves in 2024/25 reduced to £10.9m (providing "headroom" of just £2.9m above minimum levels) and remaining broadly constant by 2027/28 but at a time when the risks of the Fair Funding Review and Business Rate "reset" will arise
- ❖ Planned Reserves at £10.9m for 2024/25 represent just 2.5% of total gross expenditure
- ❖ Underlying General Reserves over the medium term at £10.8m are extremely modest.

## CABINET SUMMARY (Continued)

### Capital Programme

- ❖ Total proposed new Capital Investment of £9.3m including:
  - £2.1m for Schools Capital Maintenance
  - £1.8m for adaptations to disabled residents' homes to enable them to remain in their own homes
  - £0.8m for vehicle fleet replacement to electric vehicles
  - £0.5m provision for structure and drainage works associated with Osborne Steps
  - £0.4m for improvements at a council re-ablement facility providing support for older people to return to an independent life in their own homes
  - £0.4m for Highways Drainage schemes to reduce flooding
  - £0.4m for Rights of Way to renew the network and for reinstatement works after the recent flooding and storm events
  - £0.3m for Coastal Protection
  - £0.2m for a Place / Town Initiatives Fund
  
- ❖ Looking forward, there remains a substantial "Capital Gap" between funding and Capital Investment needs.

### Conclusion

- ❖ Balanced Budgets for 2023/24 and 2024/25 but with a "structural gap" which is not resolved until 2025/26
- ❖ Financial volatility (inflation and demand for services) is likely to continue into 2024/25
- ❖ The increase in funding from the "Island Funding" of £3m and increase in Council Tax from the second homes premium of £4.2m has substantially improved the Council's financial position and mitigated the scale of the future Budget Deficit
- ❖ The 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.
- ❖ The Council will continue to pursue additional funding from the Government to recognise the additional costs of providing services due to physical separation.

## RECOMMENDATION

36. It is recommended that the Council approve the following:
- (a) The revised Revenue Budget for the financial year 2023/24 and the Revenue Budget for the financial year 2024/25 as set out in the General Fund Summary (Appendix 1) which includes:
    - (i) Additional spending in Adult Social Care of £6.3m and Children's Services of £5.0m
    - (ii) A Covid Contingency of £5m
    - (iii) No Revenue Contribution to Capital in 2023/24 or 2024/25
  - (b) Any variation arising from the Local Government Finance Settlement 2024/25 or any further savings made in 2023/24 arising at the year-end (after allowing for specific carry forward requests) be transferred to the Revenue Reserve for Capital, 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>1</sup> for 2024/25 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 £1,977,705 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 2024/25 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 £2.75m for 2024/25 and continuing into future years as set out on the next page:

Portfolio	Controllable Budget	Savings Proposal	
	£	£	%
Adult Social Care & Public Health*	57,782,000	919,900	1.6%
Children's Services, Education & Corporate Functions*	41,238,000	207,000	0.5%
Climate Change, Biosphere & Waste	6,777,000	68,000	1.0%
Deputy Leader - Housing & Finance	8,292,000	107,100	1.3%
Economy, Regeneration, Culture & Leisure	3,052,000	24,000	0.8%
Leader - Transport Infrastructure, Highways PFI and Transport Strategy, Strategic Oversight and External Partnerships**	13,658,000	1,167,000	8.5%
Planning, Coastal Protection & Flooding	2,361,000	0	0.0%
Regulatory Services, Community Protection & ICT	11,340,000	257,000	2.3%
<b>Grand Total</b>	<b>144,500,000</b>	<b>2,750,000</b>	<b>1.9%</b>

\* Excludes the additional funding passported through to Adult Social Care of £6.3m (which if included would result in an overall increase of 9.4%) and the additional funding for Children's Services, Education & Lifelong Skills of £5.0m (which if included would result in an overall increase of 15.3%)

\*\* Excludes £19.4m of PFI grant funding, on a gross expenditure basis the saving amounts to 3.5%

- (h) Directors be instructed to start planning how the Council will achieve the savings requirements of £3.0m for the 3 year period 2025/26 to 2027/28 and that this be incorporated into Service Business Plans
- (i) The minimum level of Revenue Balances as at 31 March 2025, predicated on the approval of £2.75m savings in 2024/25 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 Capital Programme 2023/24 to 2028/29 set out in Appendix 5 which includes all additions, deletions and amendments for slippage and re-phasing
- (l) The new Capital Investment Proposals ("New Starts") - 2024/25 set out in Appendix 4 be reflected within the recommended Capital Programme 2023/24 to 2028/29 and be funded from the available Capital Resources

<sup>1</sup> Council Tax increases beyond the referendum threshold can only be implemented following a "Yes" vote in a local referendum.

- (m) The allocation of Disabled Facilities Grants be made to the Better Care Fund, and reflected within the recommended Capital Programme 2023/24 to 2028/29
- (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 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 2024/25, including the Minimum Revenue Position Statement contained therein (Appendix 6)
- (q) The Investment Strategy (Non-Treasury Investments) 2024/25 (Appendix 7)

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

- (a) The Revenue Budget 2024/25 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 £988,900 for each 1% reduction in order for the Budget 2024/25 to be approved
- (b) The Revenue Forecasts for 2025/26 onwards as set out in the section entitled "Revenue Forecasts 2025/26 to 2027/28" and Appendix 1
- (c) The estimated Savings Requirement of £3.0m for the three year period 2025/26 to 2027/28, 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>
2025/26	1.0	1.0
2026/27	1.0	2.0
2027/28	1.0	3.0

- (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 £2.75m in 2024/25 (and £1.0m 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 2024/25 will be 54,407.3 [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 2023/24 is estimated to be in surplus by £1,483,500 which is shared between the Isle of Wight Council (85.3%) and the Police & Crime Commissioner (11.1%) and the Hampshire & Isle of Wight Fire & Rescue Authority (3.6%)
- (h) The Business Rate element of the Collection Fund for 2023/24 is estimated to be in deficit by £3,354,365 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>2</sup> for 2024/25 based on the estimated Business Rate element of the Collection Fund deficit as at March 2024, the Non Domestic Rates poundage for 2024/25 and estimated rateable values for 2024/25 has been set at £43,763,020.
- (j) The Equality Impact Assessment (attached at Appendix 8)

## BACKGROUND

- 38. The primary purpose of this report is to set the Council's overall Budget for the forthcoming year 2024/25 and the associated level of Council Tax necessary to fund that Budget.
- 39. The report makes recommendations on the level of Council spending for 2024/25 and the level of Council Tax in the context of the Council's Medium Term Financial Strategy (MTFS).
- 40. The recommended Budget for 2024/25 has been prepared on the basis of the following:
  - The requirement to meet savings amounting to £2.75m, that being £0.75m greater than the Council resolution of 22 February 2023 that set an overall savings requirement of £2.0m; the additional savings being necessary to:

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<sup>2</sup> Includes Retained Business Rates of £17,546,907, "Top Up" of £12,834,713, S.31 Grants of £15,025,039 a Collection Fund deficit of £1,643,639



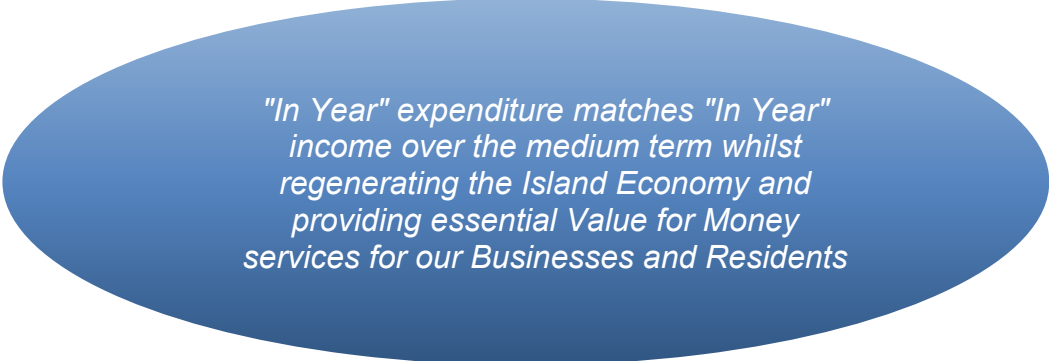
- i) Meet the substantial cost pressures being driven by extra-ordinary levels of inflation and service demand
    - ii) The additional cost of the Local Council Tax Support scheme
    - iii) The imperative to minimise the Council's "structural budget deficit" for 2024/25 caused by i) and ii) above.
  - An increase in the level of Council Tax for 2024/25 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 9.8% increase in the National Living Wage.
41. This report also provides a comprehensive revision of the Council's rolling 3 year future financial forecast for the new period 2025/26 to 2027/28 (i.e. compared to the previous forecast covering 2024/25 to 2026/27, this forecast now replaces the forecast for the previous 3 year period).
  42. 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.
  43. In particular, this report sets out the following:
    - (a) The impact of the dramatic change in the financial environment over the past 2 years and how that legacy translates into the financial challenges now presented for 2024/25 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 2023/24
    - (d) The Local Government Finance Settlement for 2024/25
    - (e) The Business Rate income for 2024/25 and future years
    - (f) The Council Tax Base and recommended Council Tax for 2024/25
    - (g) The proposed Revenue Budget for 2024/25
    - (h) The financial forecast for the new 3 year period and consequent Savings Requirements for 2025/26, 2026/27 and 2027/28
    - (i) Estimated General Reserves over the period 2023/24 to 2027/28
    - (j) The forecast Collection Fund balance as at 31 March 2024 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 2023/24 to 2028/29.

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

44. The Council approved a Medium Term Financial Strategy (MTFS) in October 2016 to guide the Council towards financial sustainability.
45. The Council has been required to make £97m in savings, efficiencies and service reductions (representing over 40% of controllable spending) over the past 13 years in order to balance the Budget, ensuring that spending remains in line with income and funding levels.
46. The financial environment has changed dramatically over the last 2 years characterised by a fixed Local Government financial envelope set by the Government in their Comprehensive Spending Review 2021 (CSR 21) up to the period ending 2024/25 and elevated and prolonged levels of inflation that CSR 21 did not foresee. The enduring impact of elevated inflation has led to unavoidable and unplanned cost increases in the delivery of Council Services as well as a "cost of living crisis" for residents which, in turn, has increased the demand for Council Services.
47. During 2023/24 and continuing into 2024/25, the Council continues to experience the "hang-over" of the heightened levels of inflation of the past 2 years, causing the Council to now suffer a "structural deficit" as it enters 2024/25.



*"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*

48. 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.
49. The overall aim of the MTFS is illustrated here:

50. The 6 Themes of the MTFs are described below.

**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

51. 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.

52. 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 2023/24**

53. The Original Revenue Budget approved by the Council in February 2023 was £178,802,800 with no reliance on a draw down from General Reserves indicating a "structurally balanced budget".

54. The Cabinet has received regular quarterly Budget Monitoring reports on the 2023/24 Budget throughout the year. Those forecasts have consistently reported that the Budget remains under pressure with Adults and Children's care services showing signs of financial distress amounting to £9.1m. These

cost pressures are being compensated mainly by additional savings and interest income from the Council's Treasury Management Activities. The current forecast as at the end of quarter three indicates a forecast overspend of £5.3m and a balanced budget at year end can only be 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 - £0.3m
  - ii) Relying on the Use of the Corporate Contingency of £2.0m
  - iii) Drawing on General Reserves by £0.9m.
55. The legacy impact of the prolonged period of extraordinary levels of inflation and ensuing "cost of living" crisis have been the defining factors affecting the Budget in the current year and will continue to do so into 2024/25. Whilst the additional costs have been substantial, the combination of improved returns from the Council's Treasury Management activities plus the funding provided by the Council's Covid Contingency and Corporate Contingency has minimised the amount required from General Reserves to balance the Budget for 2023/24.
56. The Original Budget has now been comprehensively revised, now requiring a contribution from General Reserves of £928,400 versus the budgeted contribution to the General Reserve of £7,300 a difference of £935,700.
57. The proposed Revised Revenue Budget of £178,988,200 is set out in the General Fund Summary (Appendix 1).

## **REVENUE BUDGET 2024/25**

### Overall Strategy

58. 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.
59. 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, now complete
  - Lobbying Government for additional Island Funding to reflect the additional costs associated with providing Council Services due to physical separation
  - 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.
60. The Council's approved MTFs and Savings Requirements 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.
61. General Reserves are forecast to remain relatively constant over the next 4 years with just a modest level of "headroom" of £2.8m above the minimum levels. The Council should take every opportunity to restore its "headroom" to £4m or more to guard against known uncertainty and financial shocks such as those experienced over the past 2 years, and which rapidly saw the Council experience over £30m of unplanned financial pressures. Underlying General Reserves at £10.8m over the medium term are extremely modest.
62. The Administration undertakes an annual Budget Consultation, using it to inform spending and savings priorities as well as its Council Tax proposals.

### **Budget Consultation**

63. The Council published its online budget consultation survey on 18 December 2023 which closed on 26 January 2024 with 824 responses (1,092 responses last year).
64. A summary of the results is set out below and has been considered by the Cabinet in setting out their Revenue Budget, Council Tax and Capital Investment proposals:
- Council Tax Increase for General Purposes:
    - 62% of respondents opted for an increase of 1%, 2%, 3% or more than 3%
    - The most popular increase was for a 3% increase (25% of respondents)
  - Support for an Adult Social Care Precept on council tax of 2%:
    - 45% of respondents supported raising a levy of 2%
  - Fees & Charges for Specific Services:
    - 71% of respondents would prefer to see an increase in charges for services to maintain them. The most popular choice was for a modest increase (36% of respondents)
  - Priorities for remaining funds:
    - 37% ranked ensuring older people and vulnerable adults are looked after and supported to live independently as their priority.
    - The second ranked priority was maintaining our roads, parks and open spaces (13%)
  - Spending on "one-off" projects:
    - 63% ranked investing in sea defences and flood protection within their top priorities.
    - 48% ranked improving the road network within their top priorities.

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

65. The Local Government Finance Settlement is the term used to describe the main non-ring-fenced Revenue and Capital grant funding allocations from Government.
66. In overall terms the Local Government Settlement has provided additional grant funding in 2024/25 of £6.8m as follows:
- i) Increase in Social Care Grant (for Adults and Children) - £3.7m
  - ii) Social Care market sustainability & improvement - £0.4m
  - iii) Support for hospital discharge - £0.6m
  - iv) Assumed increase in Island Funding - £3.0m
  - v) Reduction in Grants for all other Services £0.9m

### **Note:**

**The Local Government Finance Settlement includes £1.6m of additional Social Care Funding and £3.0m of additional "Island Funding" for the Isle of Wight Council relating the announcement of an additional £600m for Local Authorities made by the Secretary of State on 24<sup>th</sup> January 2024**

67. Set against the new funding of £4.7m of funding from Social Care (Adults & Children) are the existing and known Budget Pressures across those Services of £11.3m, leaving a Social Care Funding Gap of £6.6m. Therefore, further funding from the Adult Social Care Precept of £2m will also be required to narrow the gap between these cost pressures and the funding available.
68. Other features of the Settlement include:
- A 1 year Settlement for 2024/25
  - 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)
    - 3.0% for Fire & Rescue Authorities
    - £13 for Police and Crime Commissioners
  - No announcement regarding the future of the Household Support Fund although it is anticipated that it will be tapered out over 2024/25.
69. It has now been 8 years since the Government first announced that it would consult and implement a Local Government Funding Review. The Funding Review has been further delayed and is not expected to be implemented until 2026/27 at the earliest. The Funding Review 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 £4m) and re-distributing that growth nationally according to relative need (rather than where it was generated) and in accordance with the "Fair Funding Review formula (above).

70. 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 - 2024/25 & Future Forecasts***

71. 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.
72. In total, for 2024/25, Retained Business Rates are estimated at £43.8m<sup>3</sup>, which includes a deficit relating to previous years of £1.6m arising mainly from higher than anticipated successful business rate appeals.
73. Future years' forecasts of Business Rates are limited to inflation related uplifts and with flat growth in the business rate base.
74. 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 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

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<sup>3</sup> Includes Retained Business Rates of £17.5m, "Top Up" of £12.8m, S.31 Grants of £15.0m and a Collection Fund deficit of £1.6m.

maintains a modest reserve to provide the Council with a degree of funding stability in the event of fluctuations within and between years.

75. 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>4</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.
76. From 2026/27, 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 £4m.
77. 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 - 2024/25 & Future Forecasts***

#### Collection Fund Balance (Council Tax Element) 2023/24

78. 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 (85.3% share)
  - Hampshire Police & Crime Commissioner (11.1% share)
  - Hampshire & Isle of Wight Fire & Rescue Authority (3.6% 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.

79. For 2023/24, it is estimated that the Collection Fund will be in surplus by £1,483,500. The Isle of Wight Council element of that is £1,265,500. This surplus is factored into the Council Tax income estimates for 2024/25.

#### Council Tax Amount 2024/25

80. Council Tax is expected to represent 54% of the Council's total revenue funding next year and as Government funding has reduced, this has become an increasingly more important and dependent funding source for the Council.
81. Council Tax for the average Council Tax payer on the Isle of Wight (Band C) currently amounts to £1,910.66 (excluding parish precepts), of which £1,615.65

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<sup>4</sup> Applies to Local Authorities that, in general, remain above the safety net threshold over time.



(84.6%) 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. 64% of all properties are subject to the full level of Council Tax.

82. The Local Government Finance Settlement for 2024/25 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.
83. 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 9.8% 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.
84. 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 2024/25, representing 93p per week for a Band C tax payer and yielding £2.9m
  - ii) Adult Social Care precept be increased by 2.0% for 2024/25, representing 62p per week for a Band C tax payer and yielding £2m to be passported direct to Adult Social Care.
85. It is vital that the flexibility of the Adult Social Care (ASC) Precept is taken for the following reasons:
  - The Service is already experiencing Budget Pressures in the current year of £5.4m
  - The cost and demand related pressures for 2024/25 (including the National Living Wage increase of 9.8%) amount to £6.3m
  - Additional funding from Government to cover both Adults & Children's Services unavoidable cost pressures results in an overall funding shortfall of £6.6m<sup>5</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.
86. 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 £1m for every 1% of Council Tax foregone if it is to achieve a Balanced Budget. Over the course of the Council's future forecast, a 1% reduction in Council Tax would equate to a cumulative loss of funding amounting to £4.3m.

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<sup>5</sup> Children's Services cost pressures £5.0m, Adults Social Care cost pressures £6.3m less increase in Social Care Grants £4.7m

## Council Tax Base 2024/25

87. The Council Tax Base (i.e. the number of Band D equivalent properties paying the full Council Tax) has been determined as **54,407.3** for 2024/25.
88. The Council Tax Base has been determined at a level that accommodates the Council's decision to increase the maximum level of support for working age cases to 75% (from the current maximum level of 70%). The financial impact of this is to add £0.25m to the Isle of Wight Council's Budget Deficits and to reduce Council Tax income to other preceptors by £66,000 (Police, Fire and Town & Parish Councils). This in turn may result in those preceptors increasing their level of Council Tax to compensate for their reduced income.
89. In acceding to the Council's decision to increase the thresholds in the Local Council Tax Support Scheme, the Cabinet have proposed to extend the scale of its originally planned savings from £2.5m to £2.75m.

## Total Council Tax Income 2024/25 & Future Years

90. Considering the Council Tax increase, Council Tax Base and surplus on the Collection Fund, the total Council Tax income for 2024/25 is estimated at £105,095,855.
91. 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 £124,855,524 by 2027/28 and is based on the following assumptions:
  - Annual increase in the amount of Council Tax of 4.99% for 2024/25 and each year thereafter (including 2% p.a. for the Adult Social Care Precept)
  - An increase of £4.2m due to the adoption of a policy to introduce a 100% Council Tax Premium on Second Homes from April 2025.

## ***Funding Summary***

92. Over the following 3 year period of the Council's forecast, funding is anticipated to rise by 12.2% (or an average of 3.9% p.a.<sup>6</sup>), reflecting:
  - Increases in Council Tax of 4.99% per annum and the introduction of a 100% Premium on Second Homes
  - Government Funding rising in line with inflation
  - Inflation related rises in Business Rate income.

## ***Spending Proposals 2024/25***

93. In the current financial year, several Portfolios are exhibiting signs of financial stress largely relating to the effects of the high inflation / high demand environment, the impact of which is expected to endure into 2024/25 and

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<sup>6</sup> 3.9% increases on a compounded basis equates to a total increase of 12.2% over 3 years

beyond. At the mid-point of the year (September 2023) the Consumer Price Index (CPI), the main measure of inflation, was 6.7% versus the Office of Budget Responsibilities central assumption of 5.5% and pay increased by 6.6% versus a budget assumption of 4.0%. Inflation and demand in the Care Services specifically were at levels significantly greater than budgeted.

94. These pressures emanating in 2023/24 and their ongoing impact plus all other inflationary and unavoidable Budget Pressures have been factored into the Budget for 2024/25. The Budget proposal for 2024/25 represents an increase in spending of £16.3m over the Original Budget for 2023/24 and includes additional costs, inflationary pressures and savings as follows:

- Additional Spending in Adult Social Care of £6.3m (to cover the uplift in the National Living Wage of 9.8% that will be used to support care providers as well as all other cost and inflationary pressures)
- Additional Spending in Children's Services of £5.0m (to cover inflation, existing overspendings on placements)
- Other cost and inflationary pressures across all other Services to maintain "steady state" provision amounting £8.2m (excluding Adults & Children's Services above)
- Other unavoidable net reductions - £0.4m
- Budget Savings of £2.75m.

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

#### Revenue Contributions to Capital

96. 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 2023/24 Budget or from the 2024/25 Budget. Consequently, the Cabinet 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 £9.3m of new Capital Investment is proposed.

97. Budget affordability constraints are expected to continue in the future. To address both the Cabinet'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.

98. 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 Cabinet'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.

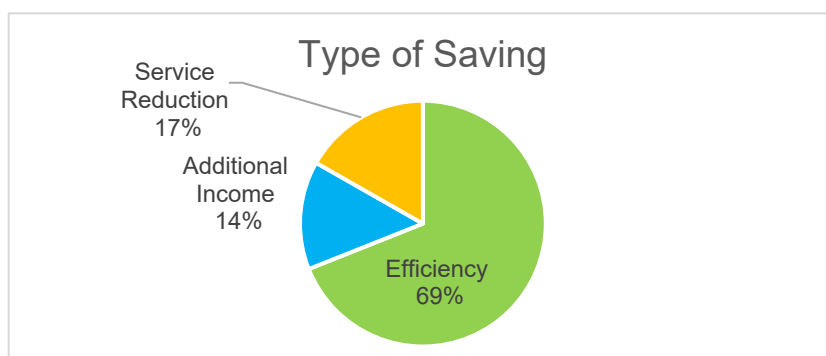
99. It is vital therefore that the "standing recommendation" continues that any savings arising at the year-end be transferred to Capital Resources to provide funding for known and potential future commitments.

*Transfer to the Transformation Fund*

100. Similarly, due to affordability constraints, there is no proposed transfer to the Transformation Fund either from the Revised Budget 2023/24 or the Budget 2024/25. A withdrawal from the Transformation Reserve is proposed for 2024/25 in the sum of £0.25m to create a Community Capacity and Resilience Fund. Ultimately, this is anticipated to be transformative for the local community, providing self-sustaining community-based services and to address gaps in services that currently exist. In turn, it is expected that such prevention activity will reduce the financial burden on Council Services in the future.
101. The overall aim of the Community Capacity and Resilience Fund is described above, and the detailed design, eligibility and evaluation criteria will be the subject of a separate report to Cabinet in 2024/25.
102. Looking forward, replenishment of the Transformation 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.
103. 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 2024/25***

104. As in previous years, the Medium Term Financial Strategy (MTFS) has advocated an "Avoidance to Cuts" approach wherever possible. The Cabinet are committed to maximising this approach and with a very strong emphasis on efficiency and income generation. The exceptional circumstances currently being experienced have required a heavier reliance of service reductions for the coming year.
105. In overall terms, the proposed £2.75m of savings are illustrated below with 83% of all savings expected to be derived from Additional Income and Efficiency Savings:



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

Portfolio	Controllable Budget	Savings Proposal	
	£	£	%
Adult Social Care & Public Health*	57,782,000	919,900	1.6%
Children's Services, Education & Corporate Functions*	41,238,000	207,000	0.5%
Climate Change, Biosphere & Waste	6,777,000	68,000	1.0%
Deputy Leader - Housing & Finance	8,292,000	107,100	1.3%
Economy, Regeneration, Culture & Leisure	3,052,000	24,000	0.8%
Leader - Transport Infrastructure, Highways PFI and Transport Strategy, Strategic Oversight and External Partnerships**	13,658,000	1,167,000	8.5%
Planning, Coastal Protection & Flooding	2,361,000	0	0.0%
Regulatory Services, Community Protection & ICT	11,340,000	257,000	2.3%
<b>Grand Total</b>	<b>144,500,000</b>	<b>2,750,000</b>	<b>1.9%</b>

\* Excludes the additional funding passported through to Adult Social Care of £6.3m (which if included would result in an overall increase of 9.4%) and the additional funding for Children's Services, Education & Lifelong Skills of £5.0m (which if included would result in an overall increase of 15.3%)

\*\* Excludes £19.4m of PFI grant funding, on a gross expenditure basis the saving amounts to 3.5%

107. Inevitably, there are a number of financial risks contained within the proposals for making savings of the scale of £2.75m on the back of making over £97m in savings over the past 13 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.

108. 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 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.

109. 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 2024/25***

110. The proposed Budget for 2024/25 has been prepared to include the following:

#### *Spending 2024/25:*

- Cost and Inflationary Pressures of £19.5m
- No Revenue Contribution to the Capital Programme
- The £2.75m savings proposals as set out in Appendix 3.
- A Community Capacity and Resilience Fund of £0.25m anticipated to be transformative for the local community
- Core contingency provision to cover known and anticipated financial risks of the Council amounting to £4.2m, 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 2024/25:*

- An increase in funding from Government of £6.8m with £4.7m provided for Social Care and assuming an increase of £3.0m for "Island Funding" but a cut for all other services of £0.9m
- Underlying Business Rate income for 2024/25 is an increase of 9.7% largely reflecting an inflationary uplift
- An overall increase in Council Tax of 4.99%, yielding £4.9m
- An increase in the Council Tax base equivalent 320.3 Band D properties resulting in additional Council Tax income £0.6m
- A "one-off" surplus on the Council Tax Collection Fund of £1.3m
- A "one-off" deficit on the Business Rate Collection Fund of £1.6m

111. The combination of the spending and funding proposals in the proposed Budget for 2024/25 above combine to provide a balanced, but not "structurally balanced" Budget for 2024/25 which requires a withdrawal General Reserves of £1.2m.

112. The proposed Budget for 2024/25, including the main changes described above results in net spending of £195,101,200. This amounts to a net increase in spending of £16,298,400 or 9.1% over the Original Budget 2023/24 and is recommended for approval.

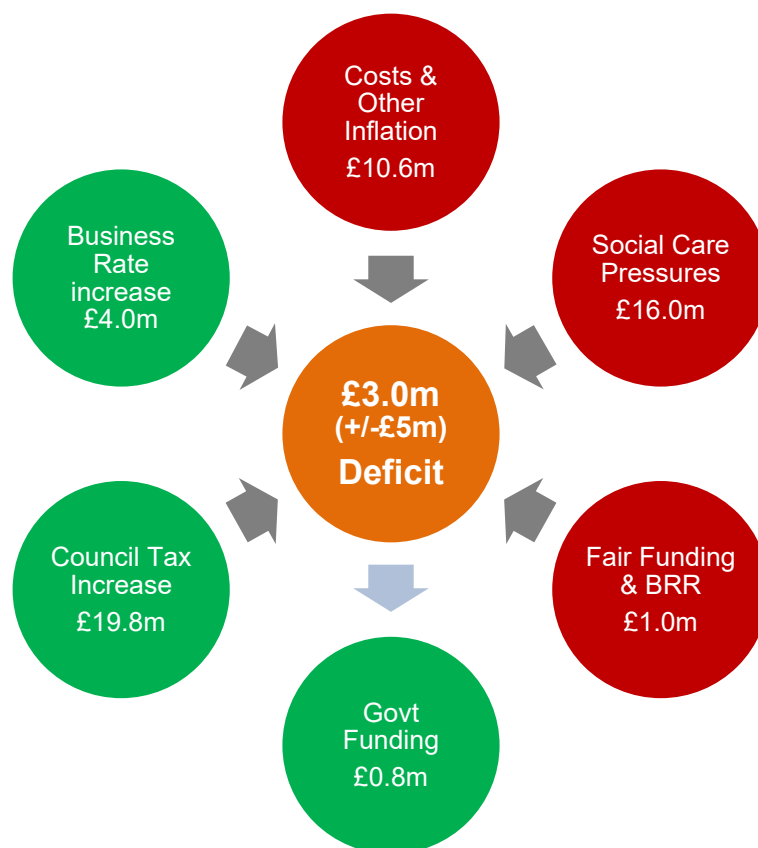
## **REVENUE FORECASTS 2025/26 TO 2027/28**

113. A new medium term forecast has now been completed and "rolled on" a further year to cover the period 2025/26 to 2027/28. All of the financial assumptions

have been comprehensively revised and a savings requirement for the new period determined.

114. The previous medium term forecast estimated that savings of £6.0m would be required across the 3 year period 2024/25 to 2026/27. The extraordinary level of inflationary and demand pressures experienced throughout the current year flowing through into 2024/25 and the Social Care Funding Gap have naturally caused the forecast deficit to increase but this has been mitigated by the additional award of "Island Funding", the increase in Council Tax from the second homes premium and the additional proposed savings of £0.75m beyond the originally anticipated £2.0m.
115. The new medium term forecast comprehensively revises all cost and funding assumptions and incorporates a forecast for the additional year 2027/28. Crucially, the forecast includes:
  - i) Budget Savings in 2024/25 of £2.75m
  - i) A Council Tax increases of 4.99% for 2024/25
  - ii) That the Council will receive £4m p.a. for "Island Funding" in total on an ongoing basis (i.e. including the additional £3m p.a. anticipated in 2024/25)
  - iii) Assumed Council Tax increases of 4.99% per annum, representing 2.99% for general purposes and 2% for Adult Social Care in 2024/25 and a similar increase of 4.99% for all future years of the Forecast
  - iv) Adoption of a 100% Council Tax premium for second homes amounting to £4.2m from April 2025.
116. It is now estimated that the savings required for the new 3 year period 2025/26 to 2027/28 will now be £3.0m. 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.

117. The Budget Deficit for the new 3 year period is £3.0m and is described in the paragraphs that follow.



118. The most significant assumptions in the medium term future forecasts for the period 2025/26 to 2027/28 are described below:

*Spending:*

- Cost and inflationary pressures in both Adult Social Care and Children's Services of £16.0m (including future uplifts to the National Living Wage in accordance with OBR Forecasts)
- Cost and inflationary pressures in all other Services of £10.6m covering all pay and prices (assuming pay awards, specific contract inflation and CPI/RPI increases in line with the forecasts from the OBR)
- Modest Revenue Contributions to Capital re-commencing in 2025/26
- 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 2026/27 onwards (**Note: the Business Rate "Reset" will remove £4m of growth which may not be fully re-distributed through the Fair Funding Review**)
- Continuing "Island Funding" of £4m p.a.



- An overall increase in Council Tax Income of £19.8m which incorporates:
  - Increases of 4.99% per annum for 2025/26 to 2027/28 (including 2% p.a for the Adult Social Care Precept)
  - 100% Council Tax premium for second homes amounting to £4.2m from April 2025
- An inflation based increase in Government Grants of £0.8m
- Indexation uplifts on retained Business Rates of 2% for 2025/26, 1.6% for 2026/27 and then 1.4% for 2027/28
- An underlying zero growth assumption for changes in Business Rates from 2025/26 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.

119. Future funding from Government from 2026/27 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.

120. It is also important to recognise that this forecast extends beyond the Fair Funding Review and the revised Business Rate Retention Scheme expected to be implemented in 2026/27. 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 a significant level of uncertainty remains surrounding the "Balanced Forecast" which could realistically vary by +/- £5m.

121. Due to the uncertain nature of the future years' forecasts, it is imperative that the Council continues to manage its cost base carefully if it is to remain well placed to respond to the review of Local Government Funding.

122. It is proposed that the Council takes an evenly managed approach to addressing the £3.0m 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.



123. Due to the uncertain nature of the future years' forecasts, it is imperative that the Council plans for at least £1.0m of savings per annum as well as seeking to increase General Reserves over time. 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.

124. 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 to maintain its financial resilience.
125. In summary, the overall forecast budget deficit and therefore savings requirement, has been reduced to £3.0m as a consequence of the Cabinet's Budget 2024/25 proposals, the anticipated increase in "Island Funding" and the adoption of a 100% Council Tax premium on second homes. The forecast has been "rolled on" to now include the financial year 2027/28 and the overall forecast budget deficit and savings requirement for the 3 year period is forecast to be £3.0m. Importantly, this level of budget deficit can only be maintained if the Council approves the proposed £2.75m of savings as well as the increase in Council Tax of 4.99% for 2024/25.
126. The medium term financial forecasts are set out as part of the General Fund Summary in Appendix 1.
127. The fundamental aim of the Medium Term Financial Strategy is for in-year expenditure to equal in-year income, excluding items of a "one-off" nature to achieve "structural balance".

## **ESTIMATED RESERVES 2023/24 TO 2027/28**

128. In general, maintaining adequate reserves is a measure of responsible financial management and strong financial health. They are required 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.
129. 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.

130. 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 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 current relatively low level of General Reserves representing just 2.5% of Gross Expenditure
  - The required level of future savings necessary to remedy the forecast deficit of £3.0m
  - The susceptibility of the Council's forecast to vary by +/- £5m due to inflation and demand volatility plus the outcome of the Fair Funding Review and the Business Rate Retention "reset"
  - The increasing susceptibility to budget pressures generally given the magnitude of savings that have been made in the past (i.e. £97m)
  - Potential for Council Tax and Business Rates collection to reduce associated with the legacy of the covid pandemic as well as the cost of living crises
  - The inherent volatility of the Business Rate Retention system (previously described) both now and in the future
  - Potential liabilities for some substantial disputes against the Council.
131. Predicated on the approval of £2.75m Budget Savings for 2024/25 and a Council Tax increase of 4.99% 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.
132. The statement below gives details of the General Reserves in hand at 01 April 2023, together with the proposed use of reserves in 2023/24 and 2024/25 arising from the Budget proposals contained within this report. The forecast balances from 2025/26 onwards assume that the £3.0m savings requirements set out in the previous section are achieved according to the profile described.

<b>General Reserves Forecast – Up to 2027/28</b>					
<b>Financial Year</b>	<b>Current Year £m</b>	<b>Forecast 2024/25 £m</b>	<b>Forecast 2025/26 £m</b>	<b>Forecast 2026/27 £m</b>	<b>Forecast 2027/28 £m</b>
<b>Opening Balance</b>	13.0	12.1	10.9	11.0	10.8
<b>In Year Surplus / (Deficit)</b>	-0.9	-1.2	0.1	-0.2	0.0
<b>Forecast Balance</b>	<b>12.1</b>	<b>10.9</b>	<b>11.0</b>	<b>10.8</b>	<b>10.8</b>

133. 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 £2.75m savings not be achieved in 2024/25, General Reserves would be close to minimum levels during the year.
  - The balances are predicated on further savings (as yet unidentified) of £3.0m being achieved over the following 3 years. If those savings are not made, balances would be below minimum levels by March 2027.
  - 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.
134. General Reserves are anticipated to fall to £10.8m 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. It is crucial that the Council now seeks to take opportunities to restore General Reserves to provide additional protection from financial risk.
135. 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 Cabinet's aspirations will be of a scale and complexity that require up front resources, especially if they are to proceed at pace.
136. It is anticipated that there will be a need to provide up-front funding from this reserve particularly for the savings and cost avoidance measures in Adult Social Care to support their delivery.
137. 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.
138. 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.

139. 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.
140. 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 the above.
141. 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 2023/24 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) and General Reserves (to improve overall financial resilience), with the level of each transfer determined by the S.151 Officer.

## **CAPITAL PROGRAMME 2023/24 TO 2028/29**

### ***Overall Strategy***

142. 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.
143. The development of a Capital Strategy considers investments that will be made in the acquisition, creation, or enhancement of tangible or intangible fixed assets, 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**

144. Capital resources available for 'new starts' in 2024/25 and onwards have been reviewed and the amount available to be allocated has been determined as £9.3m. This figure includes reallocated resources as a result of a review of contractually uncommitted schemes and the reprioritisation of projects.

145. 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.

146. The total capital resources available to the Council for 'New Starts' in 2024/25 and onwards are described below.

#### Corporate Capital Resources

147. This includes all non-ring-fenced capital resources such as underspends from current capital schemes, capital receipts, and revenue contributions. This has provided a very modest £1.4m for new capital schemes.

#### Ring-fenced & Passported Capital Funding

148. Ring-fenced capital funding includes the following:

- Funding of £2.3m is ring-fenced 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 Integrated Care Board

149. Passported Capital Funding is funding that whilst not ring-fenced is provided on the basis that it is targeted towards specific services and includes the following:

- Grant funding of £2.8m from the Department for Transport Integrated Transport Block (ITB) funding towards various network integrity schemes
- Schools capital maintenance grant targeted at the improvement of school's estate of £2.2m.

#### Prudential Borrowing

150. 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".

151. 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.

152. 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).

153. 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.

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

#### Capital Investment Proposals ("New Starts") – 2024/25

155. Proposals for the allocation of the Council's 'new start' capital resources of £9.3m are set out in Appendix 4 for approval. This includes allocations of indicative grant funding amounts for 2024/25 and 2025/26 relating to both Transport and Education, allowing those services to plan with more certainty over a 2 year period. With a larger capital allocation, it provides the ability to take a more strategic approach to capital investment over a longer time horizon.

156. The Capital Investment proposals comprise a balanced set of proposals which:

- Provide some assurance and funding security for essential core services and facilities
- 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
- Invest in highways network works, the public realm and rights of way
- Provides for a Place / Towns Initiative Fund, the overall aim being to pump prime local projects to improve prosperity to the Island's communities.

The detailed design, eligibility and evaluation criteria of the Place / Towns Initiative Fund will be the subject of a separate report to Cabinet in 2024/25.

#### Proposed Capital Programme 2023/24 to 2028/29

157. 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

158. 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.

159. 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.

160. 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 minimal core capital funding, there is a significant shortfall ("Capital Gap") to be met. All the ring-fenced and passported grants have obligations attached to them. £2.3m is ringfenced to the Better Care Fund and the remainder, 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.

161. 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 2023/24 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**

162. 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.

163. 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 2024/25. 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 from the recent 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 expected in 2026/27)
- The ability of the Council to continue to make 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.

164. 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.

165. 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 issue a S.114 notice, imposing spending controls until a balanced budget is approved by the Council.

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

166. 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.

167. Estimates and forecasts have been prepared to include all known significant financial factors over the medium term in order to inform spending decisions.
168. 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 2025/26 to 2027/28" and use the following sources as their evidence base:
- Government funding as set out in the Settlement for 2024/25
  - 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
  - An assumption that the additional £3m p.a. (£4m p.a in total) of "Island Funding" will be ongoing
  - A "no growth" assumption for Retained Business Rates from 2025/26 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.
169. 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.
170. 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.
171. The forecasts prepared for the forthcoming and future years are robustly based and illustrate the expected costs the Council will incur to deliver current levels of service.

172. 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.
173. 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 2025/26 and future years.
174. Future years' budgets will remain challenging due to inflation and demand volatility, the uncertainties associated with the overhaul of Local Government Funding and the continuing demographic pressures on Care Services.

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

175. 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 Insurance Reserve, Repair and Renewals Reserve and the Business Rate Retention Reserve.
176. 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.
177. 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 £11m of unplanned Budget Pressures for 2024/25 (and circa. £30m over the past 2 years) has arisen has exposed the susceptibility of Council's overall financial resilience, making the compelling case for maintaining General Reserves beyond the minimum 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.
178. 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. 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.
179. The Council's Covid Contingency is also critical for managing the Council's future risk. At the current level of £5m, it provides sufficient support for the next

2 years, over which time it is expected that such costs will either reduce or plans can be made for a managed reduction in funding.

180. The Council maintains several other Earmarked Reserves for specific purposes, all of which are at the levels required to meet known future commitments.
181. The Council's core contingency provision for 2024/25 has been set on a risk basis at £4.2m 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.
182. 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**

183. The Council's Budget for 2023/24 and 2024/25, the level of Council Tax and the Capital Programme 2023/24 to 2028/29 represent the Council's detailed plan for 2024/25 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**

184. The proposals set out in this report have been prepared in consultation with the Cabinet.
185. 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.
186. An Island-wide budget consultation took place over the period 18 December 2023 to 26 January 2024 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**

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

## **LEGAL IMPLICATIONS**

188. The council will need to set a lawful and balanced budget and Council Tax level for 2024/25 by the statutory deadline of 11 March 2024. In developing any

proposals for budget changes, the necessary Equality Impact Assessments and any consultation processes will need to be followed.

189. 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**

190. 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).
191. 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 but in the context that those savings proposals are indicative only.

## **PROPERTY IMPLICATIONS**

192. 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**

193. The proposed Budget for 2023/24 and 2024/25, 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 2024/25:**

- 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 £988,900
- iii) Increase the use of General Reserves used in 2024/25 and reduce the level of savings accordingly, acknowledging that:
  - (a) In doing so, the level of savings in 2025/26 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 2023/24 to 2028/29 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**

194. 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.

195. The key risk is that the Council does not approve a Revenue Budget for 2024/25 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.
196. 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".
197. 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

198. 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 Balanced, albeit relying on General Reserves totalling £1.2m but moving towards "Structural Balance" in 2025/26
  - It provides £11.3m of additional funding for Adult Social Care and Children's Services, bringing financial stability to those essential services at a critical time
  - An increase in Council Tax of 4.99% avoids further cuts to essential services to residents and improves the funding base for the future
  - It reduces the overall Savings Requirements for future years to £1.0m per annum and evenly phased
  - It provides for a "smoothing" and "spreading" of future 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



- Seeks to minimise deterioration in 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
- 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 £9.3m 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 meets essential transport safety and highway improvements.

## APPENDICES ATTACHED

199. The following appendices are attached:

- Appendix 1 - General Fund Summary
- Appendix 2 - Council Tax 2024/25 (calculated by the Council for the financial year 2024/25 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 2024/25
- Appendix 4 - New Capital Schemes starting in 2024/25
- Appendix 5 - Capital Programme 2023/24 to 2028/29
- Appendix 6 – Capital Strategy 2024/25
- Appendix 7 – Investment Strategy (Non-Treasury Investments) 2024/25
- Appendix 8 – Equality Impact Assessment

## BACKGROUND PAPERS

200. 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:
- [Medium Term Financial Strategy Report](#)
  - [Strategy](#)

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