



Purpose: For Decision

Committee report

FULL COUNCIL

Date	24 FEBRUARY 2021
Title	BUDGET AND COUNCIL TAX SETTING 2021/22 & FUTURE YEARS FORECASTS
Report of	THE LEADER OF THE COUNCIL AND THE DEPUTY LEADER OF THE COUNCIL

EXECUTIVE SUMMARY

1. The key proposals within this report are for a balanced and responsible Budget for 2021/22 which provides for:
 - The full financial impact of the COVID-19 Pandemic in the current year and its expected ongoing legacy over the next 3 years
 - £3.5m of savings in accordance with the Council resolution of 26 February 2020
 - A Council Tax increase of 4.99% (3.0% of which is raised specifically to be passported to Adult Social Care)
 - Additional funding for Adult Social Care and Children's Services of £6m in total, being far in excess of the funding provided by the Adult Social Care precept and additional Social Care grant from Central Government (£3.4m combined)
 - A forecast for the 3 year period beyond 2021/22 which will require a further £9.0m in savings or £3.0m p.a (from £3.5m p.a previously)
 - Substantial new Capital Investment on the Island of £56.1m
 - A level of General Reserves over the period of the 3 year forecast above £8m (but recognising the substantial uncertainty faced by the Council over that period).
2. The COVID-19 pandemic has a significant impact on the budget proposals in both the Revised Budget for the current year, the Budget for 2021/22 and the future years' forecasts. Some of the financial impacts of the pandemic are expected to be short term in nature (1 to 2 years) but others are expected to endure through the longer term. Excluding Business Rate reliefs which are fully recompensed by Government, the cost of responding to the COVID pandemic in the current year is expected to amount to £18.7m with associated Government funding of £17.5m.

3. The proposed Budgets for 2021/22 onwards have been prepared on the basis of delivering services at pre-pandemic levels i.e. the "steady state". For the next 3 years (commencing 2021/22), a COVID Fund of £14.2m has been established to provide a good level of surety that the Council will be able to continue to deliver all of its essential services as well as being able to respond to the continuing COVID-19 pandemic and its legacy after effects. A fund of this sum represents 75% of the total costs, income losses and reductions in Council Tax and Business Rates that is expected to be experienced in the current year. Furthermore, the ending of the furlough scheme could see increases in business failures and increases in unemployment which would have a much more substantial impact on the Council's funding streams in the future than has been experienced thus far.
4. In the longer term, it is anticipated that the overall position will be affected by circa £2.5m per annum with the Council's cost base increasing by circa £2m alongside a longer term funding loss across Council Tax and Business Rates of circa £0.5m.
5. The £6m additional funding to Adult Social Care and Children's Services is provided to ensure that the financial position of those services remains robust both in the short and medium term. It is however recognised that COVID-19 will continue to pose risks to the budgets of Adult Social Care and Children's Services but also to the Council more generally.
6. The uncertainty presented by the COVID-19 pandemic has led to a delay in:
 - The Government's multi-year Comprehensive Spending Review (setting the overall funding for Local Government over the medium term)
 - The comprehensive overhaul of the Local Government funding system known as 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 system for retaining future Business Rate growth / loss (involving the removal of all existing growth and re-distributing that growth nationally according to relative need (rather than where it was generated)).
7. Consistent with the Medium Term Financial Strategy (MTFS), the medium term approach to financial planning by the Administration has resulted in just £1.8m of new budget savings being required for 2021/22, the remaining £1.7m of savings were identified and approved as part of the last year's budget proposals and are the incremental ongoing (or full year effect) impact of those decisions.
8. The Council's future Forecast has been estimated in the context of the uncertainty set out above. For the 3 year period 2022/23 to 2024/25 it is estimated that the Budget Deficit will be £9m. This requires the Council to make incremental budget savings of £3m per annum for each of those years. However, for the reasons set out above, the Council's future forecast deficits could reasonably be expected to vary between +/- £3m in total and therefore the annual savings requirements could also vary by +/- £1m per annum.

9. During this unprecedented level of uncertainty, it is imperative that the Council continues to plan for savings of £3.0m per year in the future, retaining the COVID-19 funding and General Reserves at the levels proposed in this report so as to retain the necessary financial resilience to be able to respond in all circumstances.
10. The Capital Programme makes proposals for new Capital Expenditure of £56.1m, of which £9.6m is provided from Corporate Capital Resources but which levers in external funding amounting to £46.5m. This follows the £35m investment into the Regeneration of the Island approved by the Council over the past 3 years.
11. Key additional investments proposed in this Capital Programme include £40.7m in Coastal Protection schemes (Shanklin, Yarmouth/Bouldner, Ventnor, Yaverland and Cowes/Gurnard), £6.4m investment in School Buildings, £2.9m in the regeneration scheme at Branstone Farm and £1.3m for Highway improvement and safety schemes.
12. An Executive Summary of these key points and others is set out below:

EXECUTIVE SUMMARY

Context

- ❖ Since 2011/12 savings of £86m will have already been made (over 40% of controllable spend)
- ❖ Adult Social Care and Children's Services represent almost 60% of controllable spend, provide services to the most vulnerable, experience the greatest cost pressures, are the hardest in which to manage demand and have historically received significant protection from savings - resulting in proportionally higher savings across other Council Services
- ❖ The 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 the COVID-19 pandemic and the forthcoming Comprehensive Spending Review and overhaul of the Local Government Funding system.

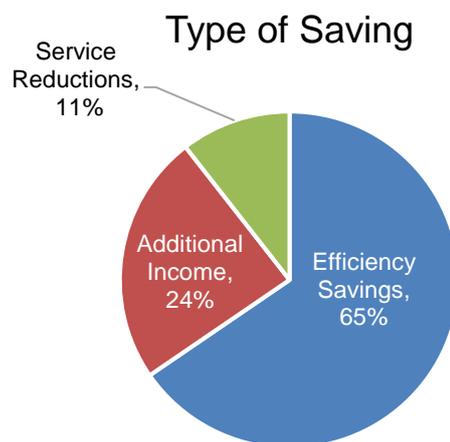
EXECUTIVE SUMMARY (Cont'd)

Revised Budget 2020/21

- ❖ A Balanced Budget for 2020/21 accommodating the expected full COVID-19 impact as follows:
 - COVID related costs and income losses £18.7m
 - COVID related funding £17.5m
- ❖ Set aside of £10.3m to fund COVID costs for the following 3 years (**estimated to be remaining from the approved £11.5m Deficit Recovery Strategy funding but dependent on the final position at year end which remains uncertain**)
- ❖ Overall forecast saving of £1.4m which is being used to support the Budget for 2021/22.

Budget 2021/22

- ❖ Planned in accordance with Medium Term Financial Strategy (MTFS), containing an interdependent package of measures to achieve financial balance and sustainability over the medium term (see below)
- ❖ Council continues to benefit from the annual reduction in debt repayment costs, previously at £7m p.a. That reduction falls to £3.9m in 2021/22 and ceases in 2022/23
- ❖ Incorporates £3.5m of Savings in accordance with the Council resolution of 26 February 2020, of which £1.7m relates to the full year impact of savings decisions taken as part of the annual budget setting meeting last year
- ❖ 89% of the £3.5m Savings are delivered through Efficiencies and Income Generation and only 11% achieved through service reductions. This analysis is presented as follows:



- ❖ Provides a COVID-19 fund of £14.2m (**dependent on final year end outturn position**) for the next 3 years to provide good surety of essential service delivery and crucial given the modest and falling levels of General Reserves.

EXECUTIVE SUMMARY (Cont'd)

Budget 2021/22 (continued)

- ❖ Additional new funding for Adult Social Care of £4.4m to accommodate their demographic cost pressures and contribute towards the additional costs to care providers associated with the National Living Wage (**increase of 2.2%**)
- ❖ Provides further additional funding for Children's Services of £1.6m to accommodate the expected permanent rise in Looked After Children (mainly arising from the COVID-19 pandemic)
- ❖ Delivers a Council Tax increase of 4.99%, of which:
 - 1.99% is for general council services (at an inflation based level)
 - 3.0% (amounting to £2.6m) is to be passported directly to Adult Social Care
- ❖ The Local Government Finance Settlement has provided some funding relief for:
 - The short term impact of COVID-19 of £3.9m grant plus the continuation for 3 months of the Sales, Fees & Charges Compensation scheme (funding circa. 70% of income streams excluding commercial property)
 - The cost pressures in Adult Social Care and Children's Services in 2021/22 of £0.8m
 - A grant of £1.4m for the expected reduction in Council Tax income from the increase in Local Council Tax Support applications
- ❖ There is a significant "funding gap" between Adult Social Care and Children's Services unavoidable costs of £6m and the funding available of £3.4m (i.e. 3% Council Tax of £2.6m plus additional Social Care Grant of £0.8m). Even the general 1.99% Council Tax increase amounting to £1.7m intended for all Services is insufficient to cover the "gap"
- ❖ Replenishment of Transformation Reserve of £1m (taking it to £3m uncommitted) following a withdrawal of £2m in 2020/21 to support the Deficit Recovery Strategy
- ❖ A contribution of £2m to the Capital Programme as part of the overall £9.6m of corporate funding requirement and enabling a total capital investment of £56.1m
- ❖ A withdrawal from General Reserves of £2.7m (£2.1m to support service spending and an estimated £0.6m transfer to new Fire Authority).

Future Forecast - 2022/23 to 2024/25

- ❖ The new forecast for the new 3 Year Period (now extended to 2024/25) is a £9.0m deficit
- ❖ The new forecast is subject to unprecedented uncertainty due to the longer term impact of COVID-19, the forthcoming Multi Year Spending Review, Fair Funding Review and the Business Rate Retention Scheme review; the forecast could vary by +/- £3m
- ❖ Future forecasts do not provide for adequate replenishment of the Transformation Reserve or contributions towards future necessary Capital Investment requirements, making the recommendations to use any additional funding received / year end savings for these purposes absolutely critical to the success of the MTFS
- ❖ Proposed Savings are further "smoothed out" and phased evenly at £3.0m p.a over the next 3 years (i.e. commencing 2022/23)
- ❖ General Reserves are maintained over the period at not lower than £8m (**assuming the £3.0m p.a. savings are achieved**), providing a modest level of headroom to be able to respond to the risks associated with the future cost and funding uncertainty
- ❖ Balanced approach to savings if the forecast proves to be too pessimistic or too optimistic. With General Reserves at proposed levels, savings of £3.0m 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 have been made.

EXECUTIVE SUMMARY (Cont'd)

Reserves

- ❖ The minimum level of Reserves required by the Council based on its risk profile, and crucially the savings proposed within this report, is £7m which it cannot fall below
- ❖ The minimum level of Reserves of £7.0m is predicated on providing for a COVID-19 Fund of £14.2m, should that Fund be reduced then the minimum level of General Reserves will necessarily need to increase
- ❖ A contribution to Reserves in 2020/21 of £1.4m but a draw from Reserves in 2021/22 of £2.7m
- ❖ Reserves in 2021/22 maintained at £11.0m but falling to just £8.2m by 2023/24 but at a time when the risks of the Fair Funding Review and Business Rate "reset" will have passed
- ❖ Planned Reserves at £11.0m for 2021/22 represent just 2.8% of total gross expenditure
- ❖ Underlying General Reserves over the medium term at £8.2m are extremely modest.

Capital Programme

- ❖ Total proposed new Capital Investment of £56.1m comprising:
 - £40.7m for Coastal Protection Schemes to protect homes and employment
 - £6.4m investment into School Buildings
 - £2.9m for the Branstone Farm Development
 - £1.9m for Disabled Facilities Grants, helping people to remain in their homes
 - £1.3m for Highway improvement and safety schemes
 - £1.2m for core IT infrastructure and digital transformation across Council Services
 - £0.75m to provide funding for Compulsory Purchases of property in order to guard against blight or facilitate regeneration / development
- ❖ Looking forward, there remains a substantial "Capital Gap" between funding and Capital Investment needs.

Conclusion

- ❖ Balanced Budgets for both 2020/21 and 2021/22
- ❖ Council's financial health is currently stable and the proposals provide confidence that the Council remains well placed to face the future uncertainty of COVID-19
- ❖ Future uncertainty for Local Government funding remains a substantial risk.

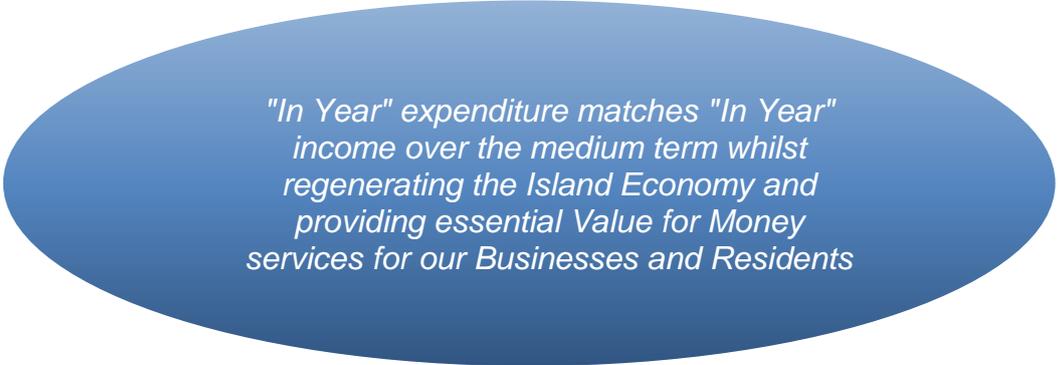
BACKGROUND

13. The primary purpose of this report is to set the Council's overall Budget for the forthcoming year 2021/22 and the associated level of Council Tax necessary to fund that Budget.
14. The report makes recommendations on the level of Council spending for 2021/22 and the level of Council Tax in the context of the Council's Medium Term Financial Strategy.
15. The recommended Budget for 2021/22 has been prepared on the basis of the following:
 - The Council resolution of 26 February 2020 that set an overall savings requirement of £3.5m
 - An increase in the level of Council Tax for 2021/22 for general purposes of 1.99%
 - The flexibility to increase the level of Council Tax for an "Adult Social Care Precept", within the limits set by Central Government at 3.0%, and the direct passporting of that additional funding to Adult Social Care to provide for otherwise unfunded cost pressures.
16. This report also provides a comprehensive revision of the Council's rolling 3 year future financial forecast for the new period 2022/23 to 2024/25 (i.e. compared to the previous forecast covering 2021/22 to 2023/24, this forecast now replaces the forecast for the previous 3 year period).
17. 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.
18. In particular, this report sets out the following:
 - (a) The challenging and uncertain financial climate facing the Council in 2021/22 and beyond, and the consequential budget deficits that result
 - (b) A brief summary of the Medium Term Financial Strategy (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 2020/21
 - (d) The Provisional Local Government Finance Settlement for 2021/22
 - (e) The Business Rate income for 2021/22 and future years
 - (f) The Council Tax Base and recommended Council Tax for 2021/22
 - (g) The proposed Revenue Budget for 2021/22

- (h) The financial forecast for the new 3 year period and consequent Savings Requirements for 2022/23, 2023/24 and 2024/25
- (i) Estimated General Reserves over the period 2020/21 to 2024/25
- (j) The forecast Collection Fund balance as at 31 March 2021 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 2020/21 to 2025/26.

MEDIUM TERM FINANCIAL STRATEGY (MTFS)

- 19. The Council approved a Medium Term Financial Strategy (MTFS) in October 2016 to guide the Council towards financial sustainability.
- 20. The Council has been required to make £86m in savings and efficiencies (representing over 40% of controllable spending) over the past 10 years in order to balance the Budget, ensuring that spending remains in line with income and funding levels.
- 21. This continuing financial challenge, now exacerbated by the ongoing impact of the COVID-19 pandemic, is seen as the single biggest risk to sustainable public services on the Island. Accordingly, the Council's MTFS is designed to resolutely maximise the deployment of the resources that it does have (Revenue, Capital, Property and Staff) towards driving additional income / funding and cost savings to secure Services for the future.
- 22. The overall aim of the MTFS is illustrated below:



"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

23. 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

24. The themes within the MTFS have been designed as a comprehensive and complimentary 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.

25. 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 2020/21

26. The original Revenue Budget approved by the Council in February 2020 was £158,877,200.

27. The Cabinet has received regular quarterly Budget Monitoring reports on the 2020/21 Budget throughout the year. Those forecasts have consistently reported a forecast overspend associated with the impact of COVID-19 but offset by forecast savings across other activities of the Council. The most up to date

position and reflected within the proposed Revised Budget is an estimated overall saving of £1.4m comprised as follows:

- Forecast overspend in relation to COVID-19 (after all Government funding) of £1.2m but met from the £11.5m funding set aside from the approved Deficit Recovery Strategy
 - Forecast savings from elsewhere across the Council of £1.4m.
28. The forecast estimated funding remaining from the Deficit Recovery Strategy therefore stands at £10.3m. The overall costs, income losses and funding losses (Council tax and Business Rates) directly arising out of the COVID-19 pandemic still remains extremely uncertain for the current year and therefore the sum available to carry forward into 2021/22 is also uncertain.
29. Equally, the financial impact on the Council arising from the COVID-19 pandemic over the next 3 years also remains extremely uncertain. The key variables being:
- The immediate and ongoing impact on the costs of providing Adult Social Care and Children's Services
 - Income losses to Leisure Centres and Parking and the speed and extent to which they will recover
 - The economic impact of a recession, its length and depth and subsequent recovery and the effect that this has on:
 - Business Rates retained
 - Council Tax income levels
30. Due to this uncertainty both for the current year and future years, it is proposed that any remaining funding set aside for the Deficit Recovery Strategy is retained as a COVID-19 Fund for 2021/22 and future years. This will be critical for both the current year and next year as the Council continues to experience the financial effects of the emergency itself and any longer lasting legacy into future years.
31. The Original Budget has now been comprehensively revised and remains in balance. It is proposed to increase the Budget to £187,004,500, an increase of £28,127,300 which has been compensated for by an increase in funding of £29,543,800, resulting in an overall saving of £1,416,500.
32. The main reasons for the increases in Spending and Funding are as follows:
- Grant funding to compensate the Council for consequent reductions in retained Business Rates arising from the national Expanded Retail Relief and Nursery relief schemes amounting to £12m. This then set aside in a reserve to be used in 2021/22 when the associated losses of Business Rates to the Council will arise
 - Funding related to COVID-19 of £17.5m to offset additional costs of £18.7m
 - Use of Deficit Recovery Funding of £1.2m

- Non COVID-19 related savings of £1.4m
33. In summary, the Revised Budget represents a saving against the Original Budget of £1.4m.
34. The proposed Revised Revenue Budget of £187,004,500 is set out in the General Fund Summary (Appendix 1).

REVENUE BUDGET 2021/22

Overall Strategy

35. 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.
36. The Council's MTFS, contains an interdependent package of measures to achieve financial balance and sustainability over the medium term which includes:
- Targeted draw down of the £40m "over provision" for debt repayments over a 5 year period (see paragraphs below)
 - Gradual repair of the Council's General Reserves to levels that can continue to be used to "smooth out" necessary savings over time as well as providing 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.
37. At present the Council is still benefiting from the draw down from amounts deemed to be set aside in advance for the repayment of debt (i.e. the overprovision in total amounting to £40m), which is commonly referred to as the "debt repayment holiday". The annual draw down had previously been £7m p.a. There now only remains £3.9m of the original £40m overprovision. This will be drawn down to support the 2021/22 Budget. This annual benefit will end in 2022/23.
38. The Council's approved MTFS and Savings Requirements also accommodates the repair of its General Reserves over time. This is vital if the Council is to stabilise its financial position, have the ability to respond to any potential "financial shocks" without resorting to quick and severe service reductions but also have the financial capacity to be able to fund opportunities as they arise. Whilst General Reserves are forecast to fall over the next 4 years to a level with "headroom" of a modest £1.2m above minimum levels, there is a level of resilience built in to the Council's overall Budget which cover the following:
- Risks associated with the COVID-19 pandemic

- Budget levels in the 2 most volatile services of the Council (Adult Social Care and Children's Services) which accommodate currently known and expected budget pressures and risks.

Nevertheless underlying General Reserves at £8.2m over the medium term are extremely modest.

39. At last year's Annual Budget Meeting in February 2020, forecasts for this coming financial year 2021/22 and the subsequent two financial years estimated that an overall 3 year savings requirement of £10.5m would be necessary to meet the budget deficits over that period.
40. Since those forecasts were prepared in February 2020, the Council has now undertaken a Budget Consultation with residents and also received the Provisional Local Government Finance Settlement for 2021/22. The Local Government Finance Settlement is the term used to describe the main non-ring-fenced Revenue and Capital grant funding allocations from Government.

Budget Consultation

41. The Council published its budget consultation survey on 30 November 2020 and closed on 25 January 2021 with 501 responses. A summary of the results is set out below and has been considered by the Administration in setting out their Revenue Budget, Council Tax and Capital Investment proposals:
 - ❖ Fees & Charges:
 - 70% either agree or strongly agree that fees and charges should be made for services that users have a choice of whether to use or not. Leisure, Harbours and Beach Huts were the most frequently made suggestions for charging. 67% of respondents preferred increasing fees and charges to making further savings.
 - ❖ Council Tax Increase for General Purposes:
 - 67% of respondents opted for an increase of 1%, 2% or more than 2%. 33% of respondents would like to see no increase in Council Tax and instead opting for further Council cuts.
 - ❖ Adult Social Care Precept:
 - 39% of respondents said that they would be prepared to pay an extra 2% in Council Tax for Adult Social Care with 61% saying they would not.
 - ❖ Spending priorities generally:
 - Schools, education and skills was the highest priority for spending with Adult Social Care coming a close second. Children's Services was also identified as a priority as well as Public Health, Community Safety and Public Protection.

- ❖ 79% of respondents agreed that the council should reduce financial support to individuals or organisations unless they are able to demonstrate genuine hardship.
- ❖ Services provided by town and parish council, local community groups and the voluntary sector:
 - 59% of respondents agreed or strongly agreed that some services should be provided locally and the most popular suggestions were beach and street cleaning, public toilets, car parking and grass cutting
- ❖ Council owned profit making trading companies:
 - 44% of respondents disagreed or strongly disagreed with councils setting up trading companies whilst 31% agreed or strongly agreed. Those that agreed suggested services such as Housing could be provided in this way.
- ❖ Providing services in partnership:
 - 39% of respondents agreed or strongly agreed with services being provided in partnership with other local authorities highlighting Adult Social Care, Children's Services, Health, Highways and Housing.
- ❖ Capital investment:
 - When asked to identify 3 areas where the council should invest; regeneration, improvements to the public realm and supporting people to stay in their own homes were the most popular options.

Funding - Summary of the Local Government Finance Settlement

42. In overall terms the provisional Local Government Settlement for the Council provides for the following:
- A 1 year Settlement only, pending the forthcoming Comprehensive Spending Review
 - A 1 year delay to the comprehensive overhaul of the Local Government funding system including the Fair Funding Review and the Business Rate Retention Scheme, for which the Council had been relying on an additional £2.5m of funding within its forecasts (see below)
 - A general increase in Government funding of 0.55%, in line with the Consumer Price index for September 2020
 - A "one-off" Lower Tier Services grant - £0.2m
 - New Homes Bonus Grant of £0.5m (£0.2m reduction)
 - An increase in the Social Care Grant (to be distributed to both Adult Social Care and Children's Services) - £0.8m

- Cash flat allocation of the Improved Better Care Fund (including Winter Pressures Funding) for Adult Social Care
 - Council Tax increase thresholds of:
 - 2.0% for General Purposes (amounting to £1.7m)
 - 3.0% for Adult Social Care (amounting to £2.6m)
 - 2.0% for Fire & Rescue Authorities
 - £15 for Police and Crime Commissioners
 - COVID-19 Support as follows:
 - Emergency COVID-19 Grant - £3.9m
 - Continuation for the first 3 months of the year of the Sales, Fees & Charges compensation Scheme (funding circa. 70% of lost income streams excluding commercial property)
 - A Local Council Tax Support Grant (to compensate for rises in claimant demand and reduced Council Tax income) - £1.4m
43. This additional funding for Adult Social Care and Children's Services set out above of £3.4m provides only partial compensation for the additional cost pressures being experienced in those Services. As set out later in this report, a total of £6m has been provided to those Services in order to bring financial stability, at least for 2021/22.
44. Government had originally announced that the Fair Funding review would be implemented for the financial year 2020/21 and Government consultations have indicated that it would take account of the unique cost pressures associated with providing Council Services on the Island. This is expected to be recognised through a "remoteness" factor which will be applied to the formulae for the majority of key services provided. This has now been delayed by 2 years to 2022/23. The Council's forecasts had included an increase in Government funding of £2.5m in this respect. Whilst this is less than the additional costs estimated by the research undertaken by Portsmouth University of £6.4m (at 2015/16 prices), a balanced estimate of £2.5m was assumed on the basis that any increase will be phased in over time (under "damping arrangements") and that there are very large number of other factors being considered under the Fair Funding review that could impact positively or negatively on the overall funding allocation to the Council.
45. The implementation of the Fair Funding Review has now been delayed to 2022/23 and whilst it is still anticipated that there will be a favourable outcome for the Council, it has caused a shortfall for the coming financial year. This shortfall has been addressed within the proposals for the Budget 2021/22 and future forecasts, largely by removing planned future funding for new capital investment.
46. Based on the Provisional Local Government Finance Settlement and a comprehensive review of all other estimates of funding, income and expenditure for 2021/22 and the following 3 years, the approved savings requirement for

2021/22 of £3.5m remains prudent but only on the basis of the Council Tax proposals set out within this report. Given what is known, or reasonably expected, regarding future funding and given future uncertainties, a savings requirement of less than £3.5m for 2021/22 would not be prudent.

47. The final grant settlement should be available by early February. Given the continuing risks associated with COVID-19, the modest sums available for Transformation, the lack of funding available for the Council's Capital Investment needs from 2022/23 onwards and the modest level of underlying General Reserves (falling to £8.2m), it is recommended that any variation from the provisional settlement is used in appropriate proportions to supplement the COVID-19 fund, the resources available to the Transformation Reserve, the Council's available Capital Resources and General Reserves.
48. 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 - 2021/22 & Future Forecasts

49. 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
50. In 2017/18 the National Non Domestic Rate system was subject to a re-valuation. This revised both the rateable values and the multiplier. The entire re-valuation is financially neutral at a national level with the increase in rateable values overall offset by a reduction in the multiplier.
51. The Retained Business Rates system for Local Authorities is likewise intended to be financially neutral. Inevitably however, this will not be the case and there will be "winners" and "losers" across the country. The key risk is the extent to which successful appeals are greater or less than the assumed allowance for appeals contained within the new multiplier set by Government.

52. In total, for 2021/22, Retained Business Rates are estimated at £24.0m¹, which includes a deficit relating to previous years of £12.4m arising mainly from the Expanded Retail and Nursey relief schemes. Underlying Business Rate income for 2021/22 is broadly unchanged.
53. 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 maintains a modest reserve to provide the Council with a degree of funding stability in the event of fluctuations within and between years.
54. 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 Council²) 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.
55. From 2022/23, there is expected to be a new national Business Rate Retention Scheme, the details of which are not yet known. The introduction of the new scheme will be accompanied by a "Reset" which will remove all current business rate growth currently being enjoyed by authorities and which for the Council amounts to £5.1m³.
56. 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 - 2021/22 & Future Forecasts

Council Tax Amount 2021/22

57. Council Tax currently represents almost 54% of the Council's total revenue funding and as Government funding has reduced, Council Tax this has become an increasingly more important and dependent source of funding for the Council.
58. With the establishment of the new Hampshire & Isle of Wight Fire & Rescue Authority, the Council's level of Band D Council Tax has been reduced by £62.18, to £1,600.87, reflecting the amount of the Council's Council Tax that related to the funding of Fire Services. The re-stated level of Council Tax for the Isle of Wight Council for 2020/21 is known as the "Alternative Notional Amount". The

¹ Includes Retained Business Rates of £19.8m, "Top Up" of £11.7m, S.31 Grants of £4.9m and a Collection Fund deficit of £12.4m

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

³ Based on 2021/22 Estimates in a 50% Business Rate Retention Scheme

Isle of Wight Council's element of the Council Tax will no longer include a Fire Services element, instead Hampshire & Isle of Wight Fire & Rescue Authority will form a separate element of the Council Tax in the same way as the Hampshire Police & Crime Commissioner. The Isle of Wight Council will remain the billing authority and will collect the Council Tax from residents on behalf of Police and Fire and then pass over those funds to them.

59. Council Tax for the average Council Tax payer on the Isle of Wight (Band C) currently amounts to £1,666.23 (excluding parish precepts), of which £1423.00 (88.7%) is the Isle of Wight Council element. Not all residents are subject to the full amount of Council Tax with many benefitting from exemptions and discounts (such as the single person discount) and a significant number of residents receiving Local Council Tax Support bringing the level of Council Tax payable to an assessed affordable level. After discounts, exemptions and Local Council Tax support is taken into account, circa 50% of all properties are subject to the full level of Council Tax.
60. The Provisional Local Government Finance Settlement for 2021/22 confirmed a Council Tax increase limit for general purposes (i.e. referendum threshold). Any increase beyond the 2% threshold can only be implemented following a "Yes" vote in a local referendum.
61. As described more fully later in this report, the actual level of inflation for the Council in 2021/22, taking into account price rises that the Council is exposed to, significantly exceeds the level of increase allowed in the Council Tax. The Council's estimated inflation amounts to 2.0%.
62. 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 2.2% and affects the Council's contracts with Care Providers for Adults) as well as the demographic pressures from general aging and a "living longer" population.
63. Given the extraordinary upward inflationary pressures on the Council more generally (and including the 2.2% increase in the National Living Wage on Care Services), the cost pressures in Adult Social Care 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 1.99% for 2021/22, representing 55p per week for a Band C tax payer and yielding £1.7m
 - ii) Adult Social Care precept be increased by 3.0% for 2021/22, representing 82p per week for a Band C tax payer and yielding £2.6m to be passported direct to Adult Social Care.
64. The unavoidable budget pressures amounting to £4.4m facing Adult Social Care include the following:
 - Increased Fees to External Care Providers to cover inflation and the increase in the National Living Wage (2.2%) - £0.8m

- New clients entering the Adult Social Care system - £1.3m
 - Additional clients that have entered residential care as a direct consequence of COVID-19 - £0.9m
 - Existing clients that can no longer afford to pay for their own care (i.e. self-funders) - £0.8m
 - Additional frequency of assessments, required by law, for clients with mental health conditions - £0.3m
 - General inflation across the Adult Social Care Service to enable existing levels of care to continue - £0.3m
65. Setting an Adult Social Care precept at a lower sum will inevitably result in additional service reductions to Adult Social Care services in 2021/22, this decision therefore will be critical for Adult Social Care services and the wider health system on the Island.
66. The Council could elect not to increase the level of Council Tax by 4.99% but if it chose to do so, would need to identify additional savings over and above the £3.5m savings approved by the Council in February 2020. For every 1% reduction in Council Tax, additional savings of £852,900 will be required.
67. The Council's future forecasts for the period 2022/23 to 2024/25 have been estimated on the following basis:
- i) General Purposes - 1.99% rise each year
 - ii) Adult Social Care Precept - No further increases.

Council Tax Base 2021/22

68. The Council Tax Base (i.e. the number of Band D equivalent properties paying the full Council Tax) has been determined as **53,279.6** for 2021/22.
69. The Council Tax Base at 53,279.6 is a reduction compared to the current year of the equivalent of 563.1 Band D equivalent taxpayers (or £946,500), relating mainly to increasing Local Council Tax Support applications and therefore reduced Council Tax income.

Collection Fund Balance (Council Tax Element) 2020/21

70. 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 (86.0% share)
 - Hampshire Police & Crime Commissioner (10.8% share)
 - Hampshire & Isle of Wight Fire & Rescue Authority (3.2% 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.

71. For 2020/21, it is estimated that there will be a deficit on the Collection Fund of £2,438,510 which will be shared in proportion to the 2020/21 precepts and distributed to the preceptors as follows:

COLLECTION FUND DEFICIT - 2020/21		
Preceptor	Distribution	
	£	%
Isle of Wight Council	2,099,000	86.0%
Hampshire Police & Crime Commissioner	262,362	10.8%
Hampshire & Isle of Wight Fire & Rescue Authority	77,148	3.2%
Total Deficit 2020/21	2,438,510	100.0%

The Isle of Wight Council Share of the deficit of £2,099,000 is factored into the overall Council Tax income for 2021/22.

Total Council Tax Income 2021/22 & Future Years

72. Considering the Council Tax increase, Council Tax Base and deficit on the Collection Fund, the total Council Tax income for 2021/22 is estimated at £88,450,943.
73. 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 £95,973,100 by 2024/25 and is based on the following assumptions:
- Annual increases in the amount of Council Tax of 1.99% per annum for 2021/22 and thereafter
 - A broadly even recovery in the Council Tax Base (from its reduction due to provided additional Local Council Tax Support) over the period.

Funding Summary

74. Over the following 3 year period of the Council's forecast, funding is anticipated to rise by just 4.1% (or an average of 1.3% p.a), reflecting 2% per annum increases in Council Tax, an increase in Government Funding arising out of the overhaul of the Local Government Funding system of a net £3.0 accommodating both the "Island Factor" and the Business Rate Retention "reset" which will remove £5.1m of Business Rate Growth from the Island and then re-distribute it back to Local Authorities generally on a needs basis.

Spending Proposals 2021/22

75. In general, the Council's budgets have been prepared to include an allocation for inflation to enable the Council to operate "steady state" services.

76. The Council is however experiencing substantial cost pressures now in Adult Social Care and Children's Services in particular, which are fully expected to continue and increase in 2021/22.
77. The forecast cost pressures relating to Adult Social Care and Children's Services amount to £6.0m and have been described previously. In order to reasonably provide for those cost pressures and any others that may arise during the year, the proposed Budget 2021/22 (Appendix 1) provides for the following increases:
- i) Adult Social Care - £4.4m
 - ii) Children's Services - £1.6m.
78. Other sums provided within the Budget are set out under the headings below:

Provision of a COVID-19 Fund

As previously described, it is crucial that the Council continues to plan responsibly for the potential impact of COVID-19 over the medium term. This is particularly important given the circumstances of the modest "headroom" in General Reserves of just £4m but reducing to just £1.2m by 2023/24.

The financial impact of COVID-19 is expected to "wind out" over time but that time period remains uncertain. Known pressures include the continuing impact on the costs of providing Adult Social Care and Children's Services, income losses to Leisure Centres and Parking and the economic impact of a recession, its length and depth and subsequent recovery and the effect that this has on Retained Business Rates and Council Tax income levels.

Government has provided a further COVID-19 Emergency Grant of £3.9m for 2021/22 and it is proposed that this is added to any remaining Deficit Recovery Funding from the current year (currently uncertain but estimated at £10.3m). Assuming that £10.3m remains, a fund of £14.2m would be established to provide the Council with financial resilience to meet any emergency response plus its on-going legacy. Even at a sum of £14.2m, it is not certain that this would be sufficient to cover all risks.

A fund of £14.2m represents just 75% of the total costs, income losses and reductions in Council Tax and Business Rates that is expected to be experienced in the current year. Significantly however, the ending of the furlough scheme could see increases in business failures and increases in unemployment which would have a much more substantial impact on the Council's funding streams in the future than has been experienced thus far.

Without a COVID-19 Fund, the Council will be financially vulnerable and put at risk the sustainable delivery of essential services.

Revenue Contributions to Capital

As described in detail later in this report, new Capital Investment totalling £56.1m is proposed. This level of investment relies on a number of funding sources provided either by the Council or from external grants and contributions. For 2021/22, £9.7m (including a Revenue Contribution to Capital of £2m - see below) is

being provided by the Council in the form of "cash backed" funding which levers in a further £46.5m in external funding.

The proposed Capital Programme for next year is ambitious and looks to the longer term. It seeks to meet the Council's statutory responsibilities, protect homes, employment and the environment more generally, as well as supporting new regeneration. The level of investment proposed is beyond the Capital Resources available to the Council and therefore it is proposed to make a further Revenue Contribution to Capital of £2.0m.

Budget affordability constraints are expected to continue in the future. To address both the Administration's aspirations and the Council's future statutory obligations, future Revenue Contributions to the Capital Programme will inevitably be required. Whilst bidding for external capital funding will always form part of the strategy to fund Capital Investment requirements, not all investments will be either eligible or successful.

Given that this Capital Investment is necessary for both the Council's statutory obligations and also to transform the Island's economic potential, 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.

Due to the affordability constraints, the Council's future forecasts assume that there will be no contributions available from the Revenue Budget. In the absence of any provision, it is vital that the "standing recommendation" continues that any underspendings arising at the year-end be transferred to Capital Resources in order to provide funding for known and potential future commitments.

Transfer to the Transformation Fund

As part of the formulation of the Deficit Recovery Strategy in the current year, £2m of the amassed £11.5m funding set aside came from the Transformation Reserve. That sum was identified as a necessary decision to provide overall resilience in an emergency situation. The £2m sum was not identified as "surplus" to the Medium Term Financial Strategy, however its existence was part of the overall strategy to remain financially resilient.

Looking forward, replenishment of this reserve is vital if it is to continue in its capacity to be a vehicle to enable Spend to Save and Invest to Save initiatives to contribute towards the delivery of savings in the future. The Reserve currently contains a modest uncommitted balance of £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. The Budget proposals for 2021/22 provide for a £1m replenishment of this reserve.

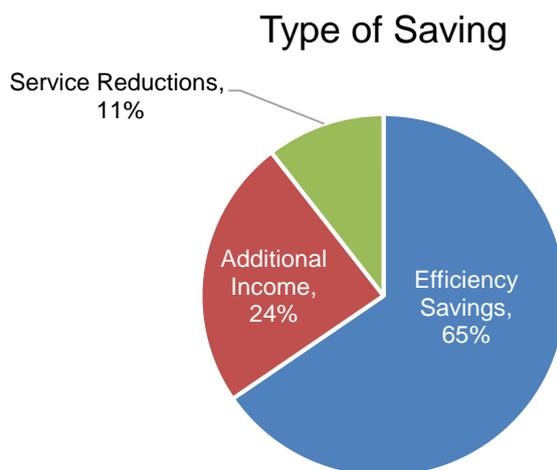
Savings Proposals 2021/22

79. In following the Medium Term Financial Strategy (MTFS), the Administration have proposed savings in previous years which have further financial savings benefits in later years. Many of the savings proposals put forward last year

provide additional savings in the forthcoming year, known as the "full year effect". The extent of the "full year effect" is £1.7m and therefore just £1.8m of new savings are proposed for 2021/22.

80. As in previous years, the Administration's savings proposals are focused on an "Avoidance to Cuts" approach in line with the MTFs. In overall terms, the proposed £3.5m of savings are characterised as follows:

81. For 2021/22, 89% of all savings proposed are planned from Efficiency Savings and Additional Income with Service Reduction measures amounting to just 11% as illustrated in the chart below:



82. A summary of the overall total (full year effect plus new) savings proposals for 2021/22, by Portfolio, is set out below.

Portfolio	Controllable Budget	Savings Proposal	
	£	£	%
Adult Social Care, Public Health & Housing Needs*	52,885,965	1,567,000	3.0%
Children's Services, Education & Skills	25,799,771	481,000	1.9%
Community Safety & Digital Transformation	8,939,086	175,800	2.0%
Environment, Heritage & Waste Management	8,826,020	308,400	3.5%
Infrastructure & Transport**	11,637,618	101,000	0.9%
Leader & Strategic Partnerships	822,326	0	0.0%
Planning & Housing Renewal	2,410,804	8,500	0.4%
Regeneration & Business Development	5,146,580	137,500	2.7%
Resources	10,935,643	720,800	6.6%
Grand Total	127,403,813	3,500,000	2.7%

*Excludes the additional funding passported through to Adult Social Care of £4.4m (which if included would result in an overall increase of 5.4%) and the additional funding for Children's Services, Education & Skills of £1.6m (which if included would result in an overall increase of 4.4%)

** Excludes £19.4m of PFI grant funding, on a Gross expenditure basis the savings amounts to 0.3%

83. Inevitably, there are a number of financial risks contained within the proposals for making savings of the scale of £3.5m on the back of making over £86m in

savings over the past 10 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.

84. It is important to note that the Council's responsibility is to set the overall Budget of the Council and determine the individual Budget for each Portfolio / Service. It is not the responsibility of the Council to approve the detailed savings that need to be made in order for the Portfolio / Service to meet its own Budget. The Council do need to have the confidence that the recommended savings for each Portfolio are deliverable and what the likely impact of delivering those savings might be. Indicative savings that are likely to be necessary in delivering the overall Portfolio savings are attached at Appendix 3 and whilst the detailed savings are not a matter for the Council to decide, they are presented to inform the decision of Council relating to the savings to be made by each Portfolio / Service.
85. 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 2021/22

86. The proposed Budget for 2021/22 has been prepared to include the following:

Spending 2021/22:

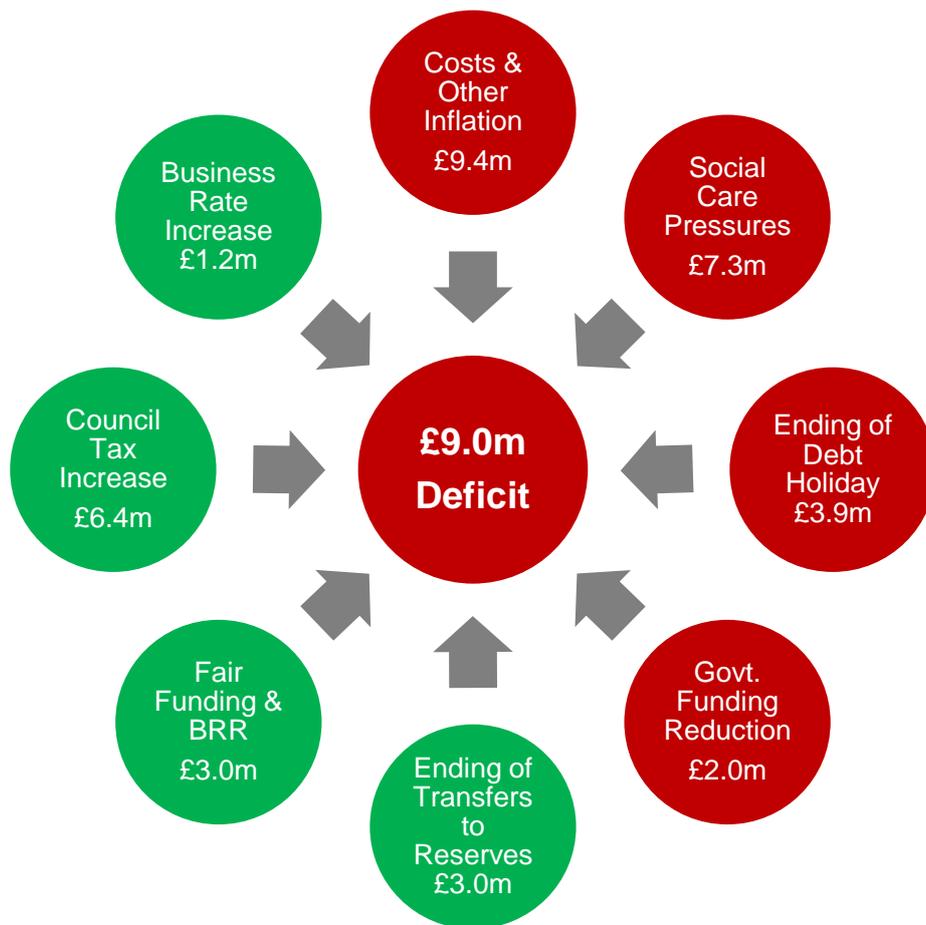
- Establishment of a COVID-19 Fund - £14.2m
- Additional Funding for Adult Social Care - £4.4m
- Additional funding for Children's Services - £1.6m
- Other Inflationary costs and other cost pressures amounting to £3.0m in order to provide "steady state" services
- Continuation of funding through the Improved Better Care Fund (including "Winter Pressures") for the Living Well, Raising Standards Initiative and Re-ablement services
- Overall contingency provision to cover known and anticipated financial risks of the Council amounting to £3.5m, especially those relating to increases in demand for Adult Social Care and Children's Services, Emergency Repairs risks and the delivery of budget savings more generally
- A transfer of £1.0m to the Transformation Reserve in order to replenish it to levels sufficient to be capable of meeting future Spend to Save initiatives
- A Revenue Contribution to the Capital Programme of £2.0m, in order to enable total Capital Investment of £56.1m
- The £3.5m savings proposals as set out in Appendix 3.

Funding 2021/22:

- An underlying increase in funding from Government of £0.8m arising from the increase in the Social Care Grant
 - Underlying Business Rate income for 2021/22 is broadly unchanged
 - An overall increase in Council Tax of 4.99%, yielding £4.3m
 - An reduction in the Council Tax base equivalent to 563.1 Band D properties resulting in reduced Council Tax income of £0.9m
 - Overall "one-off" deficits on the Collection Fund attributable to the Council amounting to £13.5m, representing a deficit on Council Tax of £1.1m and a deficit on Business Rates retained of £12.4m.
87. The combination of the spending and funding proposals in the proposed Budget for 2021/22 above combine to provide a balanced and resilient Budget, requiring a withdrawal from General Reserves of £2.7m (of which £2.1m is required to support budgeted spending and £0.6m to be transferred to the new Fire Authority).
88. The proposed Budget for 2021/22, including the main changes described above results in net spending of £151,562,000. This amounts to a net reduction in spending of £7,315,200 or 4.6% over the Original Budget 2020/21 and is recommended for approval.

REVENUE FORECASTS 2022/23 TO 2024/25

89. A new medium term forecast has now been completed and "rolled on" a further year to cover the period 2022/23 to 2024/25. All of the financial assumptions have been comprehensively revised and a savings requirement for the new period determined.
90. The previous medium term forecast estimated that savings of £10.5m would be required across the 3 year period 2021/22 to 2023/24. The proposed Revenue Budget for 2021/22 provides for £3.5m of those savings that, based on the "old" forecast, would have left a residual £7m remaining to be found for the following 2 years.
91. The new medium term forecast takes account of the £3.5m savings being achieved in 2021/22, comprehensively revises the remaining £7m that was estimated to be required and makes a forecast for the additional year 2024/25. It is now estimated that the savings required for the new 3 year period 2022/23 to 2024/25 will now be £9.0m as described in the paragraphs that follow.
92. The most significant changes that will affect Local Government and the Council through the period 2022/22 to 2024/25 are as follows:



93. The most significant assumptions in the medium term future forecasts for the period 2022/23 to 2024/25 are described below:

Spending:

- Cost and inflationary pressures of £9.4m covering all pay and prices (assuming pay awards of 2.0% per annum, specific contract inflation and CPI / RPI increases in line with the forecasts from the Treasury)
- Cost pressures in both Adult Social Care and Children's Services of £7.3m
- The ending of the "Debt Repayment Holiday" in 2022/23 which is currently benefitting the Council by £3.9m per annum (previously £7m per annum)
- The ending of Revenue Contributions to Capital and the Transformation Reserve after 2021/22
- An assumption of a steady state for all budgets.

Funding:

- Government Funding reductions of £2.0m but mainly related to "one off" sums received in 2021/22 relating to COVID-19 not recurring in later years
- A net benefit arising from the Fair Funding Review and Business Rate Retention scheme review of £3.0m, phased in from 2022/23 onwards

- A 1.99% increase in Council Tax per annum from 2022/23 onwards and accompanied by an improving Tax Base, in total yielding £6.4m
- Non-recurrence of the current deficit on the Collection Fund
- Indexation uplifts on retained Business Rates of 2.0% p.a from 2022/23 onwards
- An underlying zero growth assumption for changes in Business Rates from 2022/23 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.

94. Future funding from Government from 2022/23 onwards is heavily dependent on the outcome of the Fair Funding Review and Business Rate Retention scheme review. Whilst there are a large number of very significant variables that could affect the outcome of this review, the Council's central assumption has been revised upwards from a gain of £2.5m to a gain of £3.0m related to the combined effect of these reviews. The £3.0m, which is now factored into the new 3 year Forecast, is based on new national modelling work that has been undertaken, providing greater confidence of a favourable outcome.

95. It must be recognised however that the outcome of these reviews remains uncertain and the net £3.0m addition to the Council's funding is in the context of an addition due to the "Island Factor" as well as a re-distribution across all Councils of £5.1m of Business Rate Growth currently being received.

96. It is also important to recognise that this forecast extends beyond the multi-year Spending Review planned for the coming year, the Fair Funding Review and the revised Business Rate Retention Scheme due to be implemented in 2022/23. It also moves 2 years beyond these events and makes broad assumptions at the macroeconomic level pending any indicative information at the local level. Consequently there remains a significant level of uncertainty surrounding the £3.0m forecast deficit which could realistically vary between +/- £3m.

97. It is proposed that the Council takes an evenly managed approach to addressing the £9.0m 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.

£9.0m Deficit - Next 3 Years

2022/23

2023/24

2024/25

£3.0m

£3.0m

£3.0m

98. Due to the uncertain nature of the future years' forecasts it is imperative that the Council continues to plan for £3.0m of savings per annum as well as maintaining sufficient General Reserves. This is a balanced approach, appropriate to an eventuality where the Council's forecasts are either too pessimistic or too optimistic. For example, in the event that the 3 year forecast improves, the Council has not prematurely made a level of savings and service reductions that could have been avoided and it allows more time for savings initiatives to take effect. If the forecast deteriorates, the Council will have made good progress towards the necessary savings and have sufficient General Reserves to avoid significant "spikes" in Savings Requirements in any single year in the future.
99. Crucially this savings strategy, as described above, can only work if the Council retains General Reserves and COVID Funding at the levels set out in this report. 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 (currently recommended to be maintained at £7.0m) that the Council must hold in order to maintain its financial resilience.
100. In summary, the overall forecast budget deficit and therefore savings requirement, has been reduced for both 2022/23 and 2023/24 and the forecast has been "rolled on" to now include the financial year 2024/25. The overall forecast budget deficit and savings requirement for the 3 year period 2022/23 to 2024/25 is £9.0m. Importantly, this level of budget deficit can only be maintained if the Council approves the proposed £3.5m of savings as well as the increase in Council Tax of 4.99% for 2021/22.
101. The medium term financial forecasts are set out as part of the General Fund Summary in Appendix 1.

ESTIMATED RESERVES 2020/21 TO 2024/25

102. In general, maintaining adequate reserves is a measure of responsible financial management and strong financial health. They are required in order to be able to respond to "financial shocks" without having to revert to the alternative of quick and severe services reductions. Equally, they can be a vehicle to take advantage of any opportunities that may arise which are in the financial interests of the Council (for example, matched funding opportunities which could lever in additional funding for the Island). Importantly, they also enable differences between expenditure and funding levels to be "smoothed out" and managed in a planned way over time.
103. The Council's approved Medium Term Financial Strategy (MTFS) described the critical need to restore General Reserves over time in order to improve the Council's overall financial resilience and enable savings to be "smoothed out" over a longer period of time.
104. 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.

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

- The proposal to provide for a COVID-19 Fund of £14.2m
- The current relatively low level of General Reserves representing just 2.8% of Gross Expenditure
- The increasing susceptibility to budget pressures given the magnitude of savings that have been made in the past (i.e. £86m)
- The required level of future savings necessary to remedy the forecast deficit of £9.0m
- The inherent volatility of the Business Rate Retention system (previously described) both now and in the future
- Potential for reduced Council Tax collection rates associated with the reduced level of support provided by the Local Council Tax Support scheme
- Potential liabilities for some substantial disputes against the Council.

106. Predicated on the approval of £3.5m savings for 2021/22 and the establishment of a COVID-19 Fund of £14.2m it is considered, given the weight of financial risk being carried by the Council and the other reserves that are maintained for specific purposes, that the minimum General Reserves that should be maintained is £7.0m.

107. Should the Council not provide a COVID-19 Fund as proposed, the minimum level of Reserves will necessarily need to increase.

108. The statement below gives details of the General Reserves in hand at 01 April 2020, together with the proposed use of reserves in 2020/21 and 2021/22 rising from the Budget proposals contained within this report. The forecast balances from 2022/23 onwards **assume that the £9.0m savings requirements set out in the previous section are achieved according to the profile described.**

General Reserves Forecast – Up to 2024/25					
Financial Year	Current Year £m	Forecast 2021/22 £m	Forecast 2022/23 £m	Forecast 2023/24 £m	Forecast 2024/25 £m
Opening Balance	12.2	13.6	11.0	9.1	8.2
In Year Surplus / (Deficit)	1.4	(2.6)	(1.9)	(0.9)	0.0
Forecast Balance	13.6	11.0	9.1	8.2	8.2

109. The level of balances held over the period will be higher than the minimum level recommended. This prudent approach is being taken for a number of specific reasons, which include:

- The susceptibility of the Council's forecast to the outcome of the Fair Funding Review and the Business Rate Retention "reset" which could vary between +/- £3m
- The need to plan for the transfer of £0.6m of Reserves to the new Combined Fire Authority (CFA) in 2021/22
- The strategy to "smooth 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 forecast £3.5m savings not be achieved in 2021/22, General Reserves would be close to minimum levels by March 2022.
- The balances are predicated on total savings (as yet unidentified) of £9.0m being achieved over the next 3 years. If those savings are not made, balances would be below minimum levels by March 2023.
- The uncertainty over the level of funding generally (in particular retained Business Rates), demographic cost pressures for care services, inflation and interest rates in future years
- The uncommitted balance available in the Transformation Reserve of just £3.0m (see below) means there are only limited funds available to fund the implementation costs of future efficiency savings.

110. General Reserves are anticipated to fall to £8.2m by March 2024. The overall reduction is due to the need to draw on General Reserves in order to evenly "smooth out" the savings profile over the next 3 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 (as now required for each of the next 3 years) to draw on them and "smooth savings" at lower levels but over a longer period of time. Whilst operating at a level of General Reserves of £8.2m with an associated level of "headroom" of just £1.2m over the minimum level remains modest, it will be at a time where the risks associated with the Fair Funding

Review and Business Rate "reset" will be known. Given the rate of use of General Reserves over the period, there will also be time to plan for their replenishment.

111. In addition to General Reserves, the Council has established a Transformation Reserve which has a current uncommitted balance of £2.0m. Proposals contained within this report seek to supplement the reserve with a transfer of £1.0m. This reserve was established as one of the Council's primary vehicles to deliver savings. Often, transformation schemes aimed at significant cost reduction will be of a scale and complexity that require up front resources, especially if they are to proceed at pace.
112. It is anticipated that due to the nature and scale of some of the savings proposals in 2021/22, there will be a need to provide substantial up-front funding from this reserve particularly in Adult Social Care and Children's Services to support their delivery.
113. Maintaining the Transformation Reserve at sufficient levels to support savings delivery through "Spend to Save" and "Invest to Save" 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. The proposed £1.0m "top up" contribution to the Reserve is vital if this Reserve is to continue to deliver against its intended purpose.
114. 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.
115. 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.
116. 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 and Invest to Save initiatives through the Council's Transformation Reserve
 - Ensure that the Capital Programme is sufficiently funded over the medium term to stimulate the Island Economy and improve the Council's overall financial position

- Maintaining General Reserves at levels that ensure strong financial resilience and financial health to provide a stable platform for all of the above.

117. 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 2020/21 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 2020/21 TO 2025/26

Overall Strategy

118. 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.

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

Aim 1 - To support a Medium Term Outlook

- Allocating known resources to future years for critical capital investment, ensuring that in years where capital resources are limited, critical investment can continue to be made
- Aligning known resources and spending, ensuring that uncertain or forecast resources are not applied to current investment, thus leaving potentially unfunded obligations in the future
- 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

- 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
- 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
 - If not implemented would cause severe disruption to service delivery.

Capital Resources

120. Capital resources available for 'new starts' in 2021/22 and onwards have been reviewed and the amount available to be allocated has been determined as £56.1m. This is a much higher figure than usual as this includes significant levels of grant funding which are described in further detail in the following paragraphs.
121. 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.
122. The total capital resources available to the Council for 'New Starts' in 2021/22 and onwards are described below:

Corporate Capital Resources

123. This includes all non-ring-fenced capital grants (e.g. local transport plan, education basic need and school condition funding), capital receipts and revenue contributions and are described below:
- A £2m contribution from the Revenue Budget 2021/22 as proposed in this report
 - Integrated Transport Block Grant of £1.4m which, whilst not ring-fenced, is allocated for the purposes of Highways related projects
 - Schools capital maintenance grant, which again whilst not ring-fenced, is targeted at improvement of school's estate of £1.0m. In addition, the Devolved Formula grant, which is ring-fenced, is passported to schools in the sum of £249,000

- Capital receipts totalling £3.2m from the sale of council assets or the repayments of previous capital grants
- Other capital resources.

Ring-fenced Capital Funding

124. Ring-fenced capital funding includes the following:

- A potential £34.9m of funding over the next 7 years from the Environment Agency to support coastal protection schemes around the Island. It should be noted that these schemes are in the early development stages but will require significant match funding of £5.8m of the Council's own funding if the bids are to be successful
- Funding of £2.0m is passported to the Better Care Fund which is targeted at Disabled Facilities Grants and wider social care programmes. This is required to be prioritised by the Council and the Isle of Wight Clinical Commissioning Group
- A grant of £4.5m from the Department for Skills and Education related to the new school build in Freshwater
- Solent Local Enterprise Partnership funding of £2.25m for the Branstone Farm development site.

Prudential Borrowing

125. 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).

126. 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.

Capital Investment Proposals ("New Starts") - 2021/22

127. Proposals for the allocation of the Council's 'new start' capital resources of £9.6m are set out in Appendix 4 for approval. They comprise a balanced set of proposals which:

- Ensure the medium term resilience of essential core services and facilities
- Set aside resources required to lever in significant funding for coastal protection schemes, regeneration and schools
- Support the Council's Care Close to Home strategy including adaptations to peoples' homes
- Invest in highways network integrity priority works, the public realm and rights of way
- Set aside funding for compulsory purchase orders should these be necessary to support bringing empty properties back into use.

Proposed Capital Programme 2020/21 to 2025/26

128. 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

129. 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.

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

Statutory Obligations:

- Additional extensions / additions to schools in the primary sector in order to provide for additional school places
- Provision of additional Disabled Facilities Grants
- Requirements to improve road safety, disabled access and air quality.

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.
131. The scale of the funding required for these obligations and aspirations is such that it far outstrips the annual capital funding which may be available. With core capital funding of circa £4.7m, there is a hugely significant shortfall ("Capital Gap") to be met. Furthermore, of this £4.7m of available funding, £2.2m is ring-fenced for Disabled Facilities Grants and Devolved Formula Capital for Schools. From the residual £2.5m, there is an expectation from Central Government that amounts allocated for Education (circa £1.1m p.a) should be allocated for School Condition and there is an obligation to maintain a Local Transport Plan from the annual £1.4m provided from Department for Transport. The overall implication being that there is virtually no routine annual funding available for Capital Investment beyond those items described above.
132. 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 MTF5 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 2020/21 arising at the year-end to supplement the Capital Resources available for future years.
133. As previously described, given the known lack of funding available for the Council's Capital Investment needs from 2022/23 onwards, it is further recommended that any variation from the Provisional Local Government Finance Settlement is used to supplement the Council's available Capital Resources for future years.

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

134. 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.
135. 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 2021/22. Particular uncertainties exist regarding:

- The continuing impact of the COVID-19 pandemic plus the consequent depth and length of any recession and subsequent recovery
- The general uncertainty surrounding Business Rate income including "Material Change of Use" and the extent of successful appeals and mandatory reliefs, all of which affect Retained Business Rates
- Government Funding levels (including the outcome of the Comprehensive Spending Review, the Fair Funding Review and the Business Rate Retention scheme review)
- The ability of the Council to continue to make the necessary savings at the required scale and pace
- The likely demographic cost pressures arising in demand driven services such as Adult Social Care, Children's Services and Housing
- The extent to which new policy changes will be funded (most notably those arising from the Care Act).

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

136. 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.
137. Should the level of reserves fall below the minimum approved sum of £7.0m as proposed in this report, either arising from an overspend in the previous year or the current year, the S.151 Officer has a duty to report this to the Council with recommendations as to the actions that should be taken to rectify the shortfall. In the most extreme of circumstances, the S.151 Officer can impose spending controls until a balanced budget is approved by the Council.

Robustness of the Budget

138. 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.
139. Estimates and forecasts have been prepared to include all known significant financial factors over the medium term in order to inform spending decisions.
140. 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 2022/23 to 2024/25" and use the following sources as their evidence base:
- Government funding as set out in the provisional settlement for 2021/22
 - An assumption that the overall outcome of the Fair Funding Review and Business Rate Retention scheme review will lead to a net increase in funding of £3.0m, but phased over 3 years

- A "no growth" assumption for Retained Business Rates from 2022/23 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 2017 rating list will be the equivalent of 4.7% of the business rate multiplier
 - 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 Treasury
 - 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.
141. 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.
142. 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.
143. The forecasts prepared for the forthcoming and future years are robustly based and illustrate the expected costs the Council will incur in order to deliver current levels of service.
144. 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.
145. 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 2022/23 and future years.
146. Future years' budgets will be particularly challenging due to continued cost pressures, the exact impact of the COVID-19 pandemic, economic uncertainties

and funding uncertainties. The Council's forecasts plan for a savings target of £3.0m in 2022/23, £3.0m in 2023/24 and £3.0m in 2024/25

The Adequacy of Proposed Financial Reserves

147. 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 COVID-19, the Insurance Reserve, Repair and Renewals Reserve and the Business Rate Retention Reserve.
148. 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.
149. 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" the necessary savings to meet the future forecast budget deficits in a planned and managed way. The position will continue to be reviewed and reported to Members on an annual basis.
150. 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 £2.0m. In order for this Reserve to continue in this capacity, it will be necessary to replenish it from any further savings, transfers from other reserves no longer required, or alternatively, from the Revenue Budget in future years.
151. The Council maintains a number of other Earmarked Reserves for specific purposes, all of which are at the levels required to meet known future commitments.
152. The Council's core contingency provision for 2021/22 has been set on a risk basis at £3.5m 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.
153. 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

154. The Council's Budget for 2020/21 and 2021/22, the level of Council Tax and the Capital Programme 2020/21 to 2025/26 represent the Council's detailed plan for 2021/22 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

155. The proposals set out in this report have been prepared in consultation with the Cabinet and wider members of the Conservative Administration.
156. 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.
157. An Island-wide budget consultation took place over the period 30 November 2020 to 25 January 2021 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

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

LEGAL IMPLICATIONS

159. The council will need to set a lawful and balanced budget and Council Tax level for 2021/22 by the statutory deadline of 11 March 2021. In developing any proposals for budget changes, the necessary Equality Impact Assessments and any consultation processes will need to be followed.
160. 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

161. 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). An Equality Impact Assessment will be annexed to the report to Full Council in respect of the relevant proposals that arise out of these recommendations.

PROPERTY IMPLICATIONS

162. 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. Potential new build proposals will also be the subject of a full financial appraisal and proper due diligence.

OPTIONS

163. The proposed Budget for 2020/21 and 2021/22, 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 2021/22:

- 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 £852,900
- iii) Increase the use of General Reserves used in 2021/22 and reduce the level of savings accordingly, acknowledging that:
 - (a) In doing so, the level of savings in 2022/23 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 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 1.99% and undertake a local referendum.

B. In respect of the Capital Programme 2020/21 to 2025/26 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.

RISK MANAGEMENT

164. 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.
165. The key risk is that the Council does not approve a Revenue Budget for 2021/22 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.
166. 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".
167. 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

168. 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 provides a COVID-19 Fund expected to be sufficient to cover the financial impact of the pandemic over the next 3 years, providing financial resilience through an uncertain period and therefore a good degree of confidence in the sustainability of essential Council Services
- It provides £6m of additional funding for Adult Social Care and Children's Services, bringing financial stability to those essential services at a critical time
- It provides for a "smoothing" of savings over a planned period enabling the Council to maximise its operational capacity to implement initiatives aimed at increasing income / funding and reducing costs and providing time for "alternative to cuts" initiatives to take effect
- It reduces the overall Savings Requirements for future years from £3.5m per annum to £3.0m per annum
- Maintains the overall financial resilience of the Council at a time of unprecedented uncertainty in terms of both cost and funding, enabling the Council to guard against more immediate and deeper savings
- Provides for a balanced budget once the Council's £7m per annum saving on debt repayments comes to an end in 2022/23
- An increase in Council Tax of 4.99% avoids further cuts to essential services to residents and improves the funding base for the future
- Ensures that sufficient funding is available to enable, or "pump prime" Spend to Save (Revenue) and Invest to Save (Capital) schemes as one of the primary vehicles to address future savings requirements
- Provides for the £0.6m transfer of General Reserves to the new Combined Fire Authority
- Provides £2m additional funding from the Revenue Budget to the Capital Programme enabling a total capital investment of £56.1m (helping to lever in £46.5m of external funding) to meet the Council's statutory responsibilities, protect homes, employment and the environment more generally as well as supporting new regeneration.

RECOMMENDATION

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

- (a) The revised Revenue Budget for the financial year 2020/21 and the Revenue Budget for the financial year 2021/22 as set out in the General Fund Summary (Appendix 1) which includes:
 - (i) The establishment of a COVID-19 Fund estimated at £14.2m
 - (ii) A Revenue Contribution to Capital of £2.0m
 - (iii) A contribution to the Transformation Reserve of £1.0m.
- (b) Any variation arising from the Local Government Finance Settlement 2021/22 or any further savings made in 2020/21 arising at the year-end (after allowing for specific carry forward requests) be transferred to the COVID-19 Fund, Transformation Reserve, Revenue Reserve for Capital 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 1.99% for general purposes in accordance with the referendum threshold⁴ for 2021/22 announced by Government (as calculated in Appendix 2)
- (d) That the level of Council Tax be increased by a further 3.0% 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 £2,558,500 is passported direct to Adult Social Care
- (e) That the amounts set out in Appendix 2 be now calculated by the Council for the financial year 2021/22 in accordance with Section 31 and Sections 34 to 36 of the Local Government Finance Act 1992
- (f) The S.151 Officer be given delegated authority to implement any variation to the overall level of Council Tax arising from the final notification of the Hampshire Police & Crime Commissioner, Hampshire & Isle of Wight Fire & Rescue Authority and Parish and Town Council precepts, and amend the calculations set out in Appendix 2 accordingly
- (g) The savings proposals for each Portfolio amounting, in total, to £3.5m for 2021/22 and continuing into future years as set out on the next page:

Portfolio	Controllable Budget	Savings Proposal	
	£	£	%
Adult Social Care, Public Health & Housing Needs*	52,885,965	1,567,000	3.0%
Children's Services, Education & Skills	25,799,771	481,000	1.9%
Community Safety & Digital Transformation	8,939,086	175,800	2.0%
Environment, Heritage & Waste Management	8,826,020	308,400	3.5%
Infrastructure & Transport**	11,637,618	101,000	0.9%
Leader & Strategic Partnerships	822,326	0	0.0%
Planning & Housing Renewal	2,410,804	8,500	0.4%
Regeneration & Business Development	5,146,580	137,500	2.7%
Resources	10,935,643	720,800	6.6%
Grand Total	127,403,813	3,500,000	2.7%

*Excludes the additional funding passported through to Adult Social Care of £4.4m (which if included would result in an overall increase of 5.4%) and the additional funding for Children's Services, Education & Skills of £1.6m (which if included would result in an overall increase of 4.4%)

** Excludes £19.4m of PFI grant funding, on a Gross expenditure basis the savings amounts to 0.3%

- (h) Directors be instructed to start planning how the Council will achieve the savings requirements of £9.0m for the 3 year period 2022/23 to 2024/25 and that this be incorporated into Service Business Plans
- (i) The minimum level of Revenue Balances as at 31 March 2022, predicated on the approval of £3.5m savings in 2021/22 and the establishment of a COVID-19 Fund of £14.2m, be set at £7.0m 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 2020/21 to 2025/26 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") - 2021/22 set out in Appendix 4 be reflected within the recommended Capital Programme 2020/21 to 2025/26 and be funded from the available Capital Resources
- (m) The allocation of Disabled Facilities Grants be made to the Better Care Fund, and reflected within the recommended Capital Programme 2020/21 to 2025/26

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

- (n) The S.151 Officer be given delegated authority to determine how each source of finance is used to fund the overall Capital Programme and to alter the overall mix of financing, as necessary, to maximise the flexibility of capital resources used and minimise the ongoing costs of borrowing to the Council
- (o) That the S.151 Officer in consultation with the Leader of the Council be given delegated authority to release capital resources held back for any contingent items that might arise, and also for any match funding requirements that may be required of the Council in order to secure additional external capital funding (e.g. bids for funding from Government or the Solent Local Enterprise Partnership)
- (p) The Capital Strategy 2021/22 to 2024/25, including the Minimum Revenue Provision Statement contained therein (Appendix 6)
- (q) The Investment Strategy 2021/22 (Appendix 7)

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

- (a) The Revenue Budget 2021/22 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 £852,900 for each 1% reduction in order for the Budget 2021/22 to be approved
- (b) The Revenue Forecasts for 2022/23 onwards as set out in the section entitled "Revenue Forecasts 2022/23 to 2024/25" and Appendix 1
- (c) The estimated Savings Requirement of £9.0m for the three year period 2022/23 to 2024/25, for financial and service planning purposes, be phased as follows:

Financial Year	In Year Savings Requirement £m	Cumulative Saving £m
2022/23	3.0	3.0
2023/24	3.0	6.0
2024/25	3.0	9.0

- (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 £2.0m and will only be replenished from contributions from the Revenue Budget and an approval to the transfer of any further savings at year end

- (e) Should the Council elect to reduce the level of savings below £3.0m in 2022/23 (and £3.0m 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 2021/22 will be **53,279.6** [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 2020/21 is estimated to be a deficit of £2,438,510 which is shared between the Isle of Wight Council (86.0%) and the Police & Crime Commissioner (10.8%) and the Hampshire & Isle of Wight Fire & Rescue Authority (3.2%)
- (h) The Business Rate element of the Collection Fund for 2020/21 is estimated to be a deficit of £12,448,733
- (i) The Retained Business Rate income⁵ for 2021/22 based on the estimated Business Rate element of the Collection Fund deficit as at March 2021, the Non Domestic Rates poundage for 2021/22 and estimated rateable values for 2021/22 has been set at £23,978,748
- (j) The Equality Impact Assessment (attached at Appendix 8)

⁵ Includes Retained Business Rates of £19.8m, "Top Up" of £11.7m, S.31 Grants of £4.9m and a Collection Fund deficit of £12.4m

APPENDICES ATTACHED

171. The following appendices are attached:

- Appendix 1 - General Fund Summary
- Appendix 2 - Council Tax 2021/22 (calculated by the Council for the financial year 2021/22 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 2021/22
- Appendix 4 - New Capital Schemes starting in 2021/22
- Appendix 5 - Capital Programme 2020/21 to 2025/26
- Appendix 6 - Capital Strategy 2021/22 to 2024/25
- Appendix 7 - Investment Strategy 2021/22
- Appendix 8 - Equality Impact Assessment

BACKGROUND PAPERS

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

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

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