

# Committee report

Committee	<b>CABINET</b>
Date	<b>WEDNESDAY, 10 FEBRUARY 2022</b>
Title	<b>BUDGET &amp; COUNCIL TAX SETTING 2022/23 &amp; FUTURE YEARS FORECASTS</b>
Report of	<b>THE LEADER OF THE COUNCIL AND CABINET MEMBER FOR STRATEGIC FINANCE, CORPORATE RESOURCES AND TRANSFORMATIONAL CHANGE</b>

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## EXECUTIVE SUMMARY

1. The key proposals within this report are for a balanced and responsible Budget for 2022/23 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
  - £3.0m of savings in accordance with the Council resolution of 24 February 2021
  - A Council Tax increase of 2.99% (1.0% of which is raised specifically to be passported to Adult Social Care)
  - Additional funding for Adult Social Care of £3.7m being far in excess of the funding provided by the Adult Social Care precept and additional Social Care Grant from Central Government (£2.9m combined)
  - Additional funding for Children's Services of £2.3m
  - A forecast for the 3 year period beyond 2022/23 which will require a further £6.0m in savings or £2.0m p.a. (from £3.0m p.a. previously)
  - Substantial new Capital Investment on the Island of £40m (including £29m for new housing affordable to Island residents)
  - The Medium Term Financial Strategy has delivered "In Year" Spending aligned with "In Year" Funding and "Structural Budget Balance" for 2022/23 without reliance on the £7.0m p.a. "holiday" from debt repayment or General Reserves
  - Future years deficits arise mainly from forecast demographic and inflationary pressures in Care Services not matched by funding increases

- A level of General Reserves over the period of the 3 year forecast above £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 2022/23 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 £6.1m with associated Government funding in the year of £4.3m.
  3. The proposed Budgets for 2022/23 onwards have been prepared on the basis of delivering services at pre-pandemic levels i.e. the "steady state" with all COVID related costs and income losses met from the COVID Contingency. At present there are potential commitments against the COVID Contingency of £15.2m (built up from Council and Government funding in 2020/21 and 2021/22) of £6.1m, leaving £9.1m for future years. This contingency 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.
  4. There is no specific funding to cover the impact of COVID in the coming year or future years. The Government have provided new funding within the Provisional Local Government Settlement of £2.1m for 2022/23 in the form of a "Services Grant 2022/23" but this is for all COVID 19 risks, all New Burdens and all other Budget Pressures. Whilst it is not possible to quantify the longer term impacts of Covid precisely, it is anticipated that there will be ongoing impacts on Care Services, some sources of income and both Council Tax and Business Rates receipts.
  5. Inflation is currently at its highest in a decade and this has also presented a challenge for the Budget for 2022/23. The main measure of inflation CPI (Consumer Price Index) is currently tracking at 5.4% with the RPI (Retail Price Index), upon which some contracts remain linked, tracking at 7.5%. The Office for Budget Responsibility, the advisors of Government for the purposes of policy setting, are forecasting that CPI will remain high at 3.7% for 2022/23 but falling to 2.3% for 2023/24. As described in the main body of the report, inflationary cost increases outstrip the rates of increase in funding, causing a "structural gap" between spending and funding.
  6. The impact of COVID-19, inflationary cost pressures and the underlying financial distress being experienced in Children's and Adults Social Care have presented the most significant challenges in seeking to balance the Budget for the coming year.
  7. Additional funding to Adult Social Care and Children's Services of £6.0m is provided to ensure that the financial position of these 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.

8. The coming financial year was the originally intended date for the Local Government Funding Reform to coincide with the Comprehensive Spending Review. Due to the uncertainty presented by the COVID-19 pandemic, funding reform has been further delayed until 2023/24. Funding reform covers the following:
  - The "Fair Funding Review", (to determine a new formula methodology which will set each Local Authority's baseline funding level and creating "winners and losers")
  - The Retained Business Rates system which involves the removal of all existing growth retained to date (amounting to £7.1m) and re-distributing that growth nationally according to relative need (rather than where it was generated).
9. Consistent with the Medium Term Financial Strategy (MTFS), the medium term approach to financial planning by the Administration has resulted in just £2.1m of new budget savings being required for 2022/23, the remaining £0.9m 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.
10. The Council's future Forecast has been estimated in the context of the uncertainty set out above. For the 3 year period 2023/24 to 2025/26 it is estimated that the Budget Deficit will be £6m. This requires the Council to make incremental budget savings of £2m per annum for each of those years. The Forecast Deficit is predicated on assumed Council Tax increases of 3.0% per annum, representing 2.0% for general purposes and 1% for Adult Social Care.
11. The most significant risk to the Forecast Deficit of £6m is the Local Government Funding Reform described above (and the extent to which it accommodates any "Island Deal") as well as other unavoidable cost pressures that may arise, particularly in Care Services. Taking these risks together, the Forecast Deficit has the potential to vary by between +/- £3m which when spread over 3 years would vary the annual savings requirements by +/- £1m per annum.
12. During this unprecedented level of uncertainty, it is imperative that the Council continues to plan for savings of £2.0m per year in the future, retaining the COVID-19 Contingency and General Reserves at the levels proposed in this report so as to retain the necessary financial resilience to be able to respond in all circumstances.
13. The Capital Programme makes proposals for new Capital Expenditure of £39.8m, of which £7.5m is provided from Corporate Capital Resources but which levers in external funding amounting to £7.3m. Much of the new Capital Investment is provided to improve the overall availability of housing affordable to Island residents.
14. Key additional investments proposed in this Capital Programme include:
  - £29m for housing affordable to Island residents
  - £2.4m investment in School Buildings

- £2.3m for Transport initiatives (including safety, speed reduction and active travel schemes)
- £1.4m to improve the accommodation for care clients in Independent Supported Living
- £0.7m to lever in substantial external funding to develop a New Cultural Centre

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

## **EXECUTIVE SUMMARY**

### **Context**

- ❖ Since 2011/12 savings of £90m will have already been made (over 40% of controllable spend) due to the combination of government funding reductions and increasing demographic cost pressures
- ❖ Adult Social Care and Children's Services represent more than 60% of controllable spend, provide services to the most vulnerable, experience the greatest cost pressures, are the hardest in which to manage demand and have historically received significant protection from savings - resulting in proportionally higher savings across other Council Services
- ❖ Inflation is currently at its highest in a decade
- ❖ 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 reform of the Local Government Funding system.
- ❖ The Administration intends to scale up the level of ambition connected with income generation linked to the best use of the Council's assets and growing the Island's economy, as part of a green recovery.

### **Revised Budget 2021/22**

- ❖ A Balanced Budget for 2021/22
- ❖ Provision for COVID related costs and income losses £6.1m (excl. CTax & Bus. Rates)
- ❖ Set aside of £9.1m to fund COVID costs for the following 3 years
- ❖ An overall forecast saving of £1.3m which is being used to make a Revenue Contribution to Capital to support New Capital Investment into housing affordable to Island residents

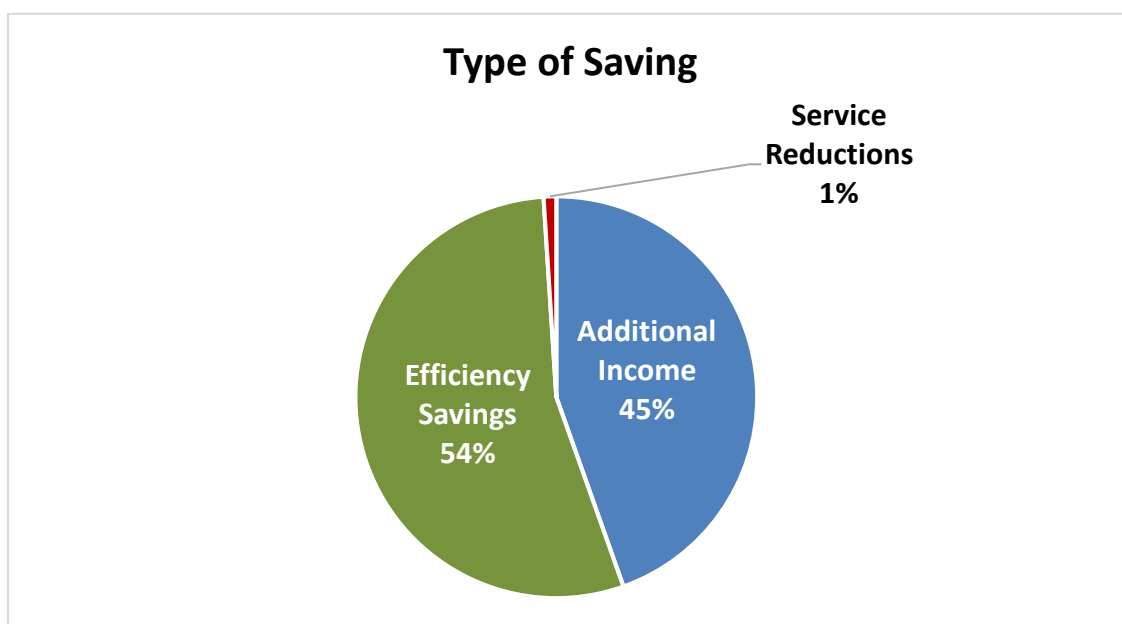
### **Budget 2022/23**

- ❖ 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)
- ❖ The annual reduction in debt repayment costs, previously at £7m p.a. and which was crucial to the delivery of the MTFS has now come to an end (see below)

## EXECUTIVE SUMMARY (Continued)

### Budget 2022/23 (continued)

- ❖ "In Year" Spending is now aligned with "In Year" Funding and "Structural Budget Balance" has now been achieved; future years deficits arise mainly from forecast demographic and inflationary pressures in Care Services not matched by funding increases
- ❖ Incorporates £3.0m of Savings in accordance with the Council resolution of 24 February 2021, of which £0.9m relates to the full year impact of decisions taken as part of the annual budget setting meeting last year
- ❖ 99% of the £3.0m Savings are delivered through Efficiencies and Income Generation and only 1% achieved through service reductions. This analysis is presented as follows:



- ❖ Additional Funding for Adult Social Care of £3.7m (to cover the uplift in the National Living Wage of 6.6% that will be passported to care providers as well as all other cost and inflationary pressures)
- ❖ Additional Funding for Children's Social Care of £2.3m (to cover inflation, existing overspendings on placements due to increases in and complexity of caseloads and rising numbers of Care Leavers)
- ❖ An inflationary uplift for all Services in order to maintain "steady state" provision amounting to £2.6m (excluding Adults & Children's Social Care above)
- ❖ Additional Government Funding of £4.1m for 2022/23, but which could reduce in future years with £2.1m being described as "one-off"
- ❖ A Council Tax increase of 2.99%, of which:
  - 1.99% is for general council services (at lower than inflation which is currently at 5.4% and rising)
  - 1.0% (amounting to £0.9m) is to be passported directly to Adult Social Care

## EXECUTIVE SUMMARY (Continued)

### Budget 2022/23 (continued)

- ❖ A £3.1m "funding gap" between Adult Social Care and Children's Services unavoidable costs of £6.0m and the funding available of £2.9m (**i.e. 1% Council Tax of £0.9m plus additional Social Care Grant of £2.0m**). Even the general 1.99% Council Tax increase amounting to £1.8m intended for all Services is insufficient to cover the "gap"
- ❖ A further contribution of £0.7m to the Capital Programme (and therefore £2.0m in total including the £1.3m proposed in the Revised Budget 2021/22) to support additional housing affordable to Island residents
- ❖ General Reserves remaining intact at £11.0m

### Future Forecast - 2023/24 to 2025/26

- ❖ The new forecast for the new 3 Year Period (now extended to 2025/26) is a £6.0m deficit
- ❖ Potential for the "Forecast Deficit" to vary between +/- £3m due to the considerable uncertainty associated with the forthcoming Local Government Funding Reform and other unavoidable cost pressures that may arise, particularly in Care Services
- ❖ Future forecasts do not provide for any contributions towards future necessary Capital Investment requirements and do not provide for the replenishment of the Transformation Reserve, making the recommendations to use any additional funding received / year end savings for these purposes absolutely critical to the success of the MTFS
- ❖ Proposed Savings are further "smoothed out" and phased evenly at £2.0m p.a over the next 3 years (i.e. commencing 2023/24)
- ❖ General Reserves are maintained over the period at not lower than £8m (**assuming the £2.0m p.a. savings are achieved**), providing a modest level of headroom to be able to respond to the risks associated with the future cost and funding uncertainty
- ❖ Balanced approach to savings if the forecast proves to be too pessimistic or too optimistic. With General Reserves at proposed levels, savings of £2.0m p.a. ensure that for any improvement in the forecast, the Council has not prematurely made a level of savings that could have been avoided and for any deterioration, good progress towards the necessary savings to be made.

### Reserves

- ❖ The minimum level of Reserves required by the Council based on its risk profile, and crucially the savings proposed within this report, is £7m which it cannot fall below
- ❖ The minimum level of Reserves of £7.0m is predicated on providing for a COVID Contingency of £9.1m, should that Fund be reduced then the minimum level of General Reserves will necessarily need to increase
- ❖ The planned draw from Reserves in 2021/22 of £2.7m remains intact
- ❖ A nominal draw on Reserves of £29,000 for 2022/23, indicating that there is "Structural Budget Balance"
- ❖ Reserves in 2022/23 maintained at £11.0m but falling to just £8.2m by 2024/25 (£8.3m in 2025/26) 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 2022/23 represent just 2.8% of total gross expenditure
- ❖ Underlying General Reserves over the medium term at £8.3m are extremely modest.

## EXECUTIVE SUMMARY (Continued)

### **Capital Programme**

- ❖ Total proposed new Capital Investment of £40m comprising:
  - £29m for housing affordable to Island residents
  - £2.4m investment in School Buildings
  - £2.3m for Transport initiatives (including safety, speed reduction and active travel schemes)
  - £1.4m to improve the accommodation for care clients in Independent Supported Living
  - £0.7m to lever in substantial external funding to develop a New Cultural Centre
- ❖ Looking forward, there remains a substantial "Capital Gap" between funding and Capital Investment needs.

### **Conclusion**

- ❖ Balanced Budgets for both 2021/22 and 2022/23
- ❖ 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.

## ALLIANCE GROUP - PREFACE

16. As a new Administration since May 2021, the Alliance Group has had a strong focus on understanding and coming to terms with the many challenges the Council faces so that it can deliver a positive future for the Island and its community. The Alliance's priority is to work together openly with the community to support and sustain our economy, environment and people.
17. The Administration's aspiration for the Council's spending plans is to reverse the annual cycle of cuts in the Council's budgets and reinvest in the services the community would like to see. However, the Council's financial challenges are significant as set out in this paper and impacted by more than ten years of Central Government austerity measures coupled with unfunded additional cost pressures. Together this has stripped the Council's spending power by £90m and significantly reduced the services it is able to offer to the Island beyond those it must provide in law.
18. Nevertheless, the Administration intends to proactively seek new streams of income that it can reinvest in services for the community by acting in a more commercially focused manner. It also intends to invest as much of the Council's money as possible on the Isle of Wight for the benefit it can provide in supporting jobs and the economy. However, it takes time to investigate and bring on board new sources of funding and so the proposals in this budget are very much a step on the journey to the new ways of working the Administration is seeking to develop.
19. This journey has and will continue to be impacted by the coronavirus pandemic for the foreseeable future. This has diverted some of the capacity of the organisation away from core business as the Council has sought to keep the Isle of Wight's community safe and has impacted on the pace of change hoped for. Therefore, whilst progress in landing this new approach has been slower than was hoped, recovery from covid-19 has been central to the thinking in putting this budget together.
20. The Council's medium term financial plan requires it to save £3m on its annual spending plans for 2022/23 compared with 2021/22 and the proposals set out in this paper achieve this aim. Unfortunately, without additional government funding, and an Island Deal with Government or sufficient time to initiate plans to generate more income to the Council, the proposals must necessarily follow the same pattern of cuts, efficiencies and income from fees and charges. The intention is to reverse this approach in subsequent budgets whilst minimising any impact on front-line services and facilitating the investments with which to change direction. Where it is prudent to do so, existing reserves will be applied to accelerate change.
21. Other than this budget being consistent with the Council's objective to be financially balanced and sustainable, there are many other positive aspects that align with the Council's corporate plan and key areas for action and will deliver improvements in services across the Island. Perhaps the most important being the provision of housing affordable to Island residents in which it is proposed to invest at least £25m on a case by case basis in securing properties for Island residents on top of an immediate investment of £3.6m in delivering relocatable homes to support those most in need of a home as quickly as possible. In



addition £2.5m will be allocated to providing the start-up capital necessary for a council owned housing company, providing for local people, to become operational.

22. Other key highlights are set out in the following paragraphs:

### **Adult Social Care and Public Health**

23. Adult social care has always been the area of the Council's business where most money is spent. The Council has historically sought to protect this area from being impacted by the need to make savings and this year is no different. The budget focuses on ensuring that care and support can continue to be provided to people when and where they need it within the legislative framework in which we operate.
24. In addition the 2022/23 budget creates the opportunity to allocate funding to invest in our essential internal care home services and in the development of housing options for people and families who find themselves in crisis or homeless and in doing so helps ensure that local people are supported effectively.
25. This budget also provides for an investment of £1.4m to improve the availability of independent living flats to individuals who need high levels of support to live independently.
26. The planned improvement works for to the essential Adelaide and Gouldings reablement facilities continue to be funded in the budget and should commence in the year having been delayed because of their key role in responding to the coronavirus pandemic. These works will secure the future of these key facilities for many years to come.
27. The ringfenced public health grant enables a focus on prevention of ill-health and improvement in overall wellbeing. The importance of this part of the Council's responsibilities has been well demonstrated in its response to the covid-19 pandemic and will continue to be important for a long time to come. The budget will focus spending on the greatest causes of ill-health this includes substance misuse following the national drug strategy announcement with a focus on hard-to-reach individuals and those who are not engaging with the treatment service supporting recovery, communities and peer support networks. The Council's mental health work will target those most at risk from poor mental health working with the voluntary and community sectors. Physical health is equally important so the focus on improving people's health will be on healthy diet, physical activity, and smoking cessation

### **Children's Service, Education and Lifelong Skills**

28. The Council will continue to invest significant sums in improving the fabric of the Island's Schools. The new £4.9m one form entry Yarmouth Primary School will open in January 2023 and almost £9m will be spent in refurbishing and remodelling the Bay School (Secondary Site) by October 2022. Other substantial works will complete at Newchurch Primary School and Medina House School in the summer of 2022.

29. Primary schools will see their budgets rise from £4,519 to £4,825 per pupil and Secondary schools will see their budgets rise from £5,863 to £6,245 per pupil. Also spending on the high needs block has received a £2 million uplift in funding.
30. The Council will continue to invest in its high achieving early help family hubs and in implementing its strengths based, family focused 'Hampshire and Isle of Wight Approach' to children's social care with a focus on increasing the number of in house foster carers, further improving the support and training we offer to carers (including emotional wellbeing support), improving placement stability for our children and increasing the range of accommodation options for our care experienced young people. This will be supported by completing the introduction of a new case management system to reduce the administrative burden on social workers and help them to spend even more time with the young people that need them.

### **Environment, Heritage and Waste Management**

31. The Council will continue to invest in and accelerate its climate and environment strategy and would expect to make significant strides over the year. Almost £3.2m of external investment will be spent on providing low carbon heating, insulation and renewable electricity. This will significantly reduce the Council's carbon footprint as well as reducing energy bills.
32. The next year will see the setting up of the Mission Zero Community Hub on the Island which will support the community and local business to transition to and take full advantage of a low carbon economy. An Island Wide EV charging strategy is being developed with plans for council investment as a catalyst to setting out the pathway to electrification of transport and cars across the island. The Council will also continue to invest in the management and expansion of its tree stock to keep it safe and as a significant contribution to net Zero ambitions.
33. Work will continue with the Environment Agency on its £60m programme of investment in coastal protection in key parts of the Island made possible by the Council's commitment of £6m and not inconsiderable staffing expertise in this area. This investment will protect around 5,000 homes from flooding.
34. The Council will continue to work with Natural England to secure £1.2m investment in the delivery of the England Coast Path. It will predominantly use the existing Isle of Wight Coastal Path route which will see upgraded surfacing, signage and furniture. The Council will also sustain the beach cleaning contract so that all amenity beaches are generally kept clear of all types of litter and refuse between 1st May and 30th September inclusive and will work with town and parish councils on the provision of marker buoys in key visitor areas.
35. At the very heart of our UNESCO Biosphere lies the 17 sustainable development goals of the United Nations, which the Council is now embedding into its corporate DNA. The Council will appoint a steering group to take forward the development and enhancement of Biosphere status, including opportunities it will provide for economic growth. A £50,000 investment in supporting the dark skies initiative in the south of the Island will complement Biosphere status. The point will be increasingly made and explored that Biosphere status is about much more than our environment.

36. The Administration is also conscious of local concerns about maintenance of the Island's public realm and as such has set aside £40,000 in this budget to facilitate support for and work with Town and Parish Councils to facilitate improvements in this area.
37. There has been a long standing need to upgrade the Isle of Wight's records office and this budget will allocate £730,000 to pump prime the works necessary to secure significant lottery funding required to achieve this aspiration in a new cultural centre as part of the plans for the regeneration of Newport Harbour. In the meantime an investment of over £300,000 will be made to fix the long-time leaking roof at Newport library and protect this valuable asset for the community.

### **Highways PFI, Transport and Infrastructure**

38. Having taken the time to properly review and consult on the scheme, the Council is now able to press on with works to the Ryde Transport Hub which will commence in April. An allocation of £2.2m will be made to the delivery of highway safety and improvement schemes over two years including those at Blackwater Hollow and Folly Road Whippingham. This follows the successful safety scheme at Smallbrook junction. In addition, new road safety education arrangements are being introduced for all schools to complement the Island wide speed review; £250,000 has been set aside to implement the outcomes of this review.
39. The Council continues to work with Island Roads in the major works programme to strengthen highways structures across the island, including the rebuilding of the wall at Belgrave Road in Ventnor which is expected to complete in 2022.
40. The Council will support some town and parish councils to complete local cycling and walking infrastructure plans (LCWIPS) which will help prioritise improvements to key community walking and cycling routes. The Mews Lane to Newport town centre multi use path will be completed in 2022 to provide a new resurfaced and widened path; a safe off-road route for all users.

### **Planning and Community Engagement**

41. The submission of a new Island Planning Strategy to Government in late 2022 with approval in summer 2023 is a key aspiration for the Administration and central to supporting the Council's plans to develop more housing for Islanders and developing the economy to support businesses and grow jobs. The focus on delivering to these timelines is maintained within this budget and the benefits of so doing will support the aspirations of commercial growth and development to generate income to the council.
42. Planning Enforcement is a priority for the Alliance Administration, and work has commenced through partnership working alongside our Town, Parish and Community Councils. This priority will enhance and improve enforcement throughout our communities.

## **Regeneration, Business Development and Tourism**

43. The Council's regeneration programme is central to the Administration's aspirations to grow the income coming into the Council so to avoid cuts in services and spending. In the coming year it will invest £389,000 match funding for the East Cowes marine hub project that will lever an additional £8.7m from the Government's Levelling Up fund and other partners, creating over 150 jobs. The Council's £1m match funding for the £2.5m Heritage High Street action zones project will see shopfronts and public spaces improved in Newport and Ryde. Funding of £900,000 will create a much-needed new business centre at Northwood; Innovation Wight will create up to 100 new jobs.
44. In the coming year the Branstone Farm jobs and housing scheme developed by Island partners on council land will open with a mix of new businesses, growing businesses and family homes bringing the biosphere to life. Key schemes such as Newport Harbour will move into implementation following the uncertainty created by the covid-19 pandemic. It is intended to bring forward the development of a flagship cultural centre in Newport working alongside Arts Council England's designation of the island as a Priority Place.
45. The Council's improving relationship and reputation with funding bodies and the profile of the Island as a place to invest, aligned with the collective will of the community to build back greener, considerably enhances regeneration potential on the Island. The Administration's budget proposals are designed to enable and capitalise on these opportunities.
46. The Administration is dedicating funds to support the Island's community in celebrating the HRH Queen Elizabeth's Platinum Jubilee in June 2022.
47. To support and regenerate the economy of the county town, specific assistance is allocated by the Administration to the Shaping Newport parking pilot to which Newport and Carisbrooke Community Council have offered financial support; contributing to covid-19 recovery.
48. As the regeneration programme accelerates, the Administration will continue to identify ambitious revenue generation opportunities and continue to invest in the delivery of existing projects.
49. The Administration will enable support and actively promote the local benefits and capitalise on the international publicity connected to hosting the final leg of The Tour of Britain cycling event in September 2022.

## **Strategic Finance, Corporate Resources and Transformational Change**

50. The refresh of the organisational development strategy will see investment in council staff to assist with continuous professional and personal development and business improvements that contribute to the Council being a great place to work. The well-established 'Believe in Great' cultural change programme that has seen year on year improvements in staff survey outcomes will also continue, with specific focus on municipal entrepreneurialism to underpin the delivery of our revised commercial and procurement strategies once approved.

51. These budget proposals allow the continued approach to creating and developing apprenticeship opportunities in the Council that offer excellent work experience opportunities and a step on the ladder to future career pathways. The adult and community learning service will remain as a vital part of our support to communities in acquiring work ready functional skills.

### **Community Protection, Digital Transformation, Housing Provision and Housing Needs**

52. The new digital strategy will see continued investments in the Council's information technology infrastructure and digital solutions that can bring about efficiencies in the delivery of council services and which keeps current systems up to date and mitigations that keep information assets secure. Refreshing the Council's digital strategy for 2022 and beyond will also help us to keep abreast of and respond to digital developments that help us to maximise the potential of technology and puts the customer at the heart of all that we do.
53. A budget of £750,000 continues to be set aside for the compulsory purchase of properties that blight the Island and where landlords seem incapable or unwilling to work in the best interests of all. The Council's preference is always to work with the owners of such buildings to help get them back into the best use that meets the needs of the community. A refresh of the empty property strategy will be completed and a working group established to proactively tackle problem empty residential properties and derelict sites.
54. It is important for the Council to support businesses and protect the community through the reinstatement of effective regulatory inspections as and when the impacts of the coronavirus pandemic begin to ease and this budget allows for that to happen.
55. These budget proposals have been developed in accordance with the Alliance Administration's principles of openness and transparency and its determination to respond to the needs and wishes of the local community. The strong message to do more to provide housing affordable to Island residents has been heard and begins to be responded to in this budget, but it can only be a start and there will be more to do and there are many barriers to overcome in moving forward with this agenda.
56. Work is already ongoing to identify and develop all of the commercial opportunities available to the Council that will allow it to move away from a programme of cuts to reinvestment in services and it is the hope that this work will start to show benefit in budgets in future years.
57. The near £29m of planned investments in providing new homes underlines the Administration's determination to increase access to housing which the Island's community can afford and follows the successful acquisition of five properties as part of a rough sleeper's initiative. Activating the currently dormant council housing company will provide a vehicle for increased positive activity in the housing key action area.

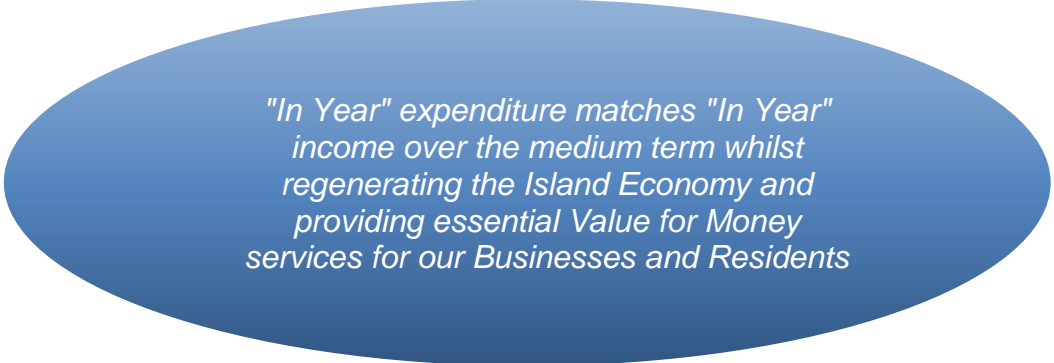
## BACKGROUND

58. The primary purpose of this report is to set the Council's overall Budget for the forthcoming year 2022/23 and the associated level of Council Tax necessary to fund that Budget.
59. The report makes recommendations on the level of Council spending for 2022/23 and the level of Council Tax in the context of the Council's Medium Term Financial Strategy.
60. The recommended Budget for 2022/23 has been prepared on the basis of the following:
  - The Council resolution of 24 February 2021 that set an overall savings requirement of £3.0m
  - An increase in the level of Council Tax for 2022/23 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 1.0%, and the direct passporting of that additional funding to Adult Social Care to provide for otherwise unfunded cost pressures including the 6.6% increase in the National Living Wage.
61. This report also provides a comprehensive revision of the Council's rolling 3 year future financial forecast for the new period 2023/24 to 2025/26 (i.e. compared to the previous forecast covering 2022/23 to 2024/25, this forecast now replaces the forecast for the previous 3 year period).
62. 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.
63. 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 2021/22
  - (d) The Provisional Local Government Finance Settlement for 2022/23
  - (e) The Business Rate income for 2022/23 and future years
  - (f) The Council Tax Base and recommended Council Tax for 2022/23
  - (g) The proposed Revenue Budget for 2022/23

- (h) The financial forecast for the new 3 year period and consequent Savings Requirements for 2023/24, 2024/25 and 2025/26
- (i) Estimated General Reserves over the period 2021/22 to 2025/26
- (j) The forecast Collection Fund balance as at 31 March 2022 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 2021/22 to 2026/27.

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

- 64. The Council approved a Medium Term Financial Strategy (MTFS) in October 2016 to guide the Council towards financial sustainability.
- 65. The Council has been required to make £90m in savings, efficiencies and service reductions (representing over 40% of controllable spending) over the past 11 years in order to balance the Budget, ensuring that spending remains in line with income and funding levels.
- 66. 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.
- 67. 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*

68. 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

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

- i) Take a proportionate and managed approach to the implementation of the Council's Savings Requirements and the "smoothing out" of savings over longer time periods will not be an available option resulting in larger and deeper service reductions
- ii) Cushion the impact on services from any "financial shocks"
- iii) Take advantage of opportunities that may arise (e.g. additional external funding) which requires a Council contribution and would contribute to the future financial sustainability of the Council.

70. 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 2021/22**

71. The Original Revenue Budget approved by the Council in February 2021 was £151,562,000 and was relying on a draw down from General Reserves of £2.065m.

72. The Cabinet has received regular quarterly Budget Monitoring reports on the 2021/22 Budget throughout the year. Those forecasts have consistently reported a forecast underspend but this has only been achieved by drawing down of the



Council's COVID Contingency to accommodate the additional costs and income losses associated with the impact of COVID-19. The most up to date position and reflected within the proposed Revised Budget is an estimated overall saving of £1.3m which is proposed to be transferred in full to support new Capital Investment into housing affordable to Island residents.

73. The COVID contingency was established to provide a good level of surety that the Council will be able to continue to deliver all of its essential services as well as being able to respond to the continuing COVID-19 pandemic and its legacy after effects. In the current year, it is forecast that there will be £6.1m of commitments against the contingency, leaving a remaining balance of £9.1m for future years. The overall costs, income losses and funding losses (**Council tax and Business Rates**) arising directly out of the COVID-19 pandemic still remains uncertain for the current year and therefore the sum available to carry forward into 2022/23 is also uncertain.
74. 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
  - The extent to which built up backlogs in Regulatory Services can be addressed
  - The speed at which income losses will recover
  - The impact on both Council Tax and Business Rate collection levels
75. The Original Budget has now been comprehensively revised and remains in balance. It is proposed to increase the Budget to £157,886,900, an increase of £6,324,900 which has been compensated for by an increase in funding of an equivalent amount.
76. 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 and the COVID Additional Relief Fund amounting to £6.6m.
  - Other grants passported direct to Services of £0.3m
  - A reduction in the estimated compensation for COVID 19 income losses of £0.6m
77. In summary, the Revised Budget represents a saving against the Original Budget of £1.3m, that saving for which has been transferred to the Capital Programme for 2022/23 to support additional housing affordable to Island residents.
78. The proposed Revised Revenue Budget of £157,886,900 is set out in the General Fund Summary (Appendix 1).

# REVENUE BUDGET 2022/23

## Overall Strategy

79. 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.
80. 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.
81. It was reported last year that the annual draw down from the £40m overprovision for debt repayment (commonly referred to as the "debt repayment holiday") was coming to an end in 2022/23. The implication of this is that the Council's Budget for Debt Repayment would return to normal levels and therefore increase Debt Repayment costs by £7m.
82. The Council's MTFS identified 2022/23 as the "threshold year" when the benefit of the "Debt Repayment Holiday" would cease and when "In Year" Spending had been reduced to the level of "In Year" Funding, thereby creating a "Structural Balance" to the Budget. "Structural Budget Balance" has been achieved within the proposed Budget for 2022/23 with no reliance on the £7m p.a "Debt Repayment Holiday" or on any contribution from General Reserves.
83. The Council's approved MTFS and Savings Requirements also accommodates the repair of its General Reserves over time. It is vital that the Council maintains its General Reserves at the levels set out in this report if it is to continue to have the facility to "smooth out" necessary savings over time. As set out later in this report, it is forecast that in 2023/24 the Council will need to draw on £2m of its General Reserves as well as making £2m in Savings in order to balance its Budget for that year. Any further draw down on General Reserves will therefore jeopardise the level of savings required for 2023/24.
84. Whilst General Reserves are forecast to fall over the next 4 years to a level with "headroom" of a modest £1.3m above the 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 cost and inflationary pressures and risks
- Earmarked Reserves for significant known future risks and commitments

Nevertheless underlying General Reserves at £8.3m over the medium term are extremely modest.

85. At last year's Annual Budget Meeting in February 2021, forecasts for this coming financial year 2022/23 and the subsequent two financial years estimated that an overall 3 year savings requirement of £9.0m would be necessary to meet the budget deficits over that period.
86. Since those forecasts were prepared in February 2021, the Council has now undertaken a Budget Consultation with residents and also received the Provisional Local Government Finance Settlement for 2022/23. 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**

87. The Council published its budget consultation survey on 14 December 2021 and closed on 21 January 2022 with 682 responses (501 responses last year). The Council also ran 5 workshops with stakeholders from Town and Parish Councils, the business sector, unions and voluntary sector. An invitation to discuss the budget was extended to all Councillors and briefing sessions held with the Conservative Group. In-person public consultation sessions were held to extend the reach of the consultation and to enable the widest possible discussions.
88. A summary of the results is set out below and has been considered by the Administration in setting out their Revenue Budget, Council Tax and Capital Investment proposals:
- Council Tax Increase for General Purposes:
    - 71% of respondents opted for an increase of 1%, 2% or more than 2%.
    - The most popular choice was for a 2% increase (36% of respondents).
  - Fees & Charges for Specific Services:
    - 73% of respondents would prefer to see an increase in charges for services so as to maintain them. The most popular choice was for a modest increase (42% of respondents).
  - Social Care Services:
 

Respondents were asked to prioritise the needs across Social Care services between the Aged and Disabled; Community and in Home care; Community based Hubs and Outreach; Mental Health and Children's care.

    - 33% of respondents ranked Aged and Disabled as the top priority.
    - The second ranked priority was Children's Care with 29%.

- Other Non-Statutory Services:

Respondents were asked to prioritise any remaining funds after statutory obligations have been delivered.

- 32% ranked Public Health, Homelessness and Housing as the top priority.
- The second ranked priority was Adults and Children's Social Care with 31%.

89. The Consultation also allowed for respondents to make comments. Many referenced the financial difficulties over the last 2 years, particularly from the impact of COVID-19 and the increasing cost of living.

90. The workshops with other stakeholders highlighted many ideas for partnership working across the sectors, how publicly owned assets could be used, how the burden of funding shortages could be shared and how our aims and objectives around the Biosphere could be used to integrate various services. The provision of housing affordable to Island residents and the impact of 2<sup>nd</sup> homes was a common theme discussed at all of the workshops.

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

91. In overall terms the provisional Local Government Settlement has provided real growth in funding for 2022/23 of £4.1m. This relates to the uplift in the Social Care Grant of £2.0m and a new one-off "2022/23 Services Grant" of £2.1m.

92. The additional funding has been provided to fund cost pressures in Adults and Children's Social Care as well as the ongoing impact of COVID-19 and all new burdens including the impact of the National Insurance uplift of 1.25% to fund the national reforms to Social Care.

93. Set against the new funding of £4.1m (£2.1m being "one-off"), are the existing and known Budget Pressures in both Adults and Children's Social Care which are on-going. These amount to £6.0m across both Services and therefore further funding from the Adult Social Care Precept of £0.9m will also be required to close the gap between these cost pressures and the funding available.

94. A summary of the Settlement is set out below:

- A 1 year Settlement only pending the forthcoming reform of Local Government Funding (i.e. Fair Funding Review and Business Rate Retention "Reset")
- An inflation linked increase in general Government funding of 3.1% (in line with the Consumer Price index for September 2021)
- The continuation of the Lower Tier Services grant to ensure that no Local Authority has a real terms reduction in "Core Spending Power"
- Marginal increase in the New Homes Bonus Grant
- An increase in the Social Care Grant (to be distributed to both Adult and Children's Social Care) - £2.0m

- A new "2022/23 Services Grant" of £2.1m - A new "One-Off" grant intended to compensate Local Authorities for all new burdens, including the impact of the National Insurance uplift of 1.25% to fund the national reforms to Social Care
- A "Market Sustainability and Fair Cost of Care Fund Grant - £0.5m to cover the costs of implementing the Social Care Reforms
- An inflation linked uplift in the Improved Better Care Fund of 3.1%
- Council Tax increase thresholds of:
  - 1.99% or £5 for Shire District Councils
  - 1.99% for Upper Tier and Unitary Councils
  - 1.0% for Adult Social Care (Upper Tier Authorities only)
  - 2.0% or £5 for Fire & Rescue Authorities
  - £10 for Police and Crime Commissioners
- Continuation of funding for Homelessness.

95. The Provisional Settlement is not sufficient to cover the gap required to meet the cost pressures of Adults and Children's Social Care. The Council however is facing further substantial and unavoidable cost pressures as described later in this report which significantly widens the gap between funding and unavoidable costs.

96. It is also important to note the following two serious risks associated with the Settlement:

- i) The "2022/23 Services Grant" of £2.1m is described as "one-off" on the basis that the method of distribution in future years will be different (i.e. to support the levelling up agenda). Adding this into base budgets on an ongoing basis is unavoidable and therefore presents future risks for the Council.
- ii) The Comprehensive Spending Review confirmed that there was no new money to Local Government after 2022/23 for the following 2 years (i.e. cash flat settlements with no incremental funding for increasing cost pressures). The rationale being that COVID cost pressures would ease and therefore free up funding going forward. This also presents future risks to the Council, particularly given that all of the additional funding is required to fund non COVID related cost pressures

97. Based on the Provisional Local Government Finance Settlement and a comprehensive review of all other estimates of funding, income and expenditure for 2022/23 and the following 3 years, the approved savings requirement for 2022/23 of £3.0m remains prudent but only on the basis of the Council Tax proposals set out within this report and the level of General Reserves proposed. Given what is known, or reasonably expected, regarding future funding and given future uncertainties, a savings requirement of less than £3.0m for 2022/23 would not be prudent.

98. It has now been 6 years since the Government first announced that it would consult and implement Local Government Funding Reform. Following successive delays, the coming financial year was announced to be the intended date of implementation and to coincide with the Comprehensive Spending Review. Due to the uncertainty presented by the COVID-19 pandemic, Funding Reform has been further delayed until 2023/24. Funding Reform covers the following:
- The "Fair Funding Review", (to determine a new formula methodology which will set each Local Authority's baseline funding level and creating "winners and losers")
  - The Retained Business Rates system which involves the removal of all existing growth retained to date (amounting to £7.1m) and re-distributing that growth nationally according to relative need (rather than where it was generated).
99. The Fair Funding review is the mechanism by which on-going funding would be provided for the unique cost pressures associated with providing Council Services on the Island (referred to as the "Island Deal"), if the case made to Government is accepted. This review is now delayed by a further year. The Council has made it clear in its submissions to Government that this funding inequity cannot be allowed to persist for a further year and representations and negotiations continue. The outcome of those discussions are expected to be announced as part of the Final Local Government Settlement in early February.
100. The Council's Future Forecast Deficit to 2025/26 has been revised to £6m as described later in this report. This £6m Deficit is predicated on receiving an increase in Government Funding of £3m for the additional unique costs of providing Council Services on the Island. If that uplift is not received then the Council's Forecast Deficit will rise to £9m. Should the Council's Settlement from Government be favourable as a consequence of the representations made to Government, it is recommended that:
- i) In the first instance it is applied to meet / offset the forecast future years' deficit as set out in this report and as has been represented to Government
  - ii) Any "one-off" element of a favourable Settlement is used in appropriate proportions at the discretion of the S.151 Officer to supplement the COVID-19 Contingency, the resources available to the Transformation Reserve, the Council's available Capital Resources and General Reserves

These recommendations are made for the following reasons:

- i) The primary thrust of the discussions with Government has been to demonstrate the funding inequity itself and how that has led directly to the Forecast Financial Deficits of the Council. The Council has argued that any additional funding will be used to meet those deficits, avoid further cuts and stabilise the fragile financial position of the Council. The underlying principle being that the protection and sustainability of existing Council Services and financial resilience is the absolute priority of the Council
- ii) There remain continuing risks associated with COVID-19

- iii) There are only modest sums available for Transformation and therefore to pursue income generation and cost reduction initiatives
- iv) There is a substantial lack of funding available for the Council's Capital Investment needs from 2023/24 onwards
- v) The Council is carrying very modest levels of underlying General Reserves (falling to £8.3m)

101. 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 - 2022/23 & Future Forecasts***

102. 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

103. In total, for 2022/23, Retained Business Rates are estimated at £31.1m<sup>1</sup>, which includes a deficit relating to previous years of £6.8m arising mainly from the Expanded Retail and Nursey relief schemes and the Covid Additional Relief Fund (but neutral on the Budget due to compensation from Government Grant). Underlying Business Rate income for 2022/23 is broadly unchanged.

104. 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

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<sup>1</sup> Includes Retained Business Rates of £16.2m, "Top Up" of £11.7m, S.31 Grants of £10.1m and a Collection Fund deficit of £6.8m

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.

105. Despite the complications and risks associated with appeals, there remains the financial incentive within the system for many Local Authorities (including the Isle of Wight Council<sup>2</sup>) to generate economic growth and job creation. Irrespective of the financial incentive, the Council's Medium Term Financial Strategy (MTFS) is aimed at improving the Island Economy to generate growth and productivity (which improves the Council's Business Rate Base) as well as reducing the demand for Council Services generally.
106. From 2023/24, there is expected to be a review of the Business Rate Retention Scheme, the details of which are not yet known. The review will include a "Reset" which will remove all current business rate growth currently being enjoyed by authorities and which for the Council amounts to £7.1m<sup>3</sup>.
107. 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 - 2022/23 & Future Forecasts***

#### Council Tax Amount 2022/23

108. Council Tax currently represents almost 58% 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.
109. Council Tax for the average Council Tax payer on the Isle of Wight (Band C) currently amounts to £1,757.96 (excluding parish precepts), of which £1494.06 (85.0%) 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 54% of all properties are subject to the full level of Council Tax.
110. The Provisional Local Government Finance Settlement for 2022/23 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.
111. As described more fully later in this report, the actual level of inflation for the Council in 2022/23, taking into account price rises that the Council is exposed to, significantly exceeds the level of increase allowed in the Council Tax.

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

<sup>3</sup> Based on 2022/23 Estimates in a 50% Business Rate Retention Scheme



112. 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 6.6% 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.
113. Given the extraordinary upward inflationary pressures on the Council more generally (and including the 6.6% 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 2022/23, representing 57p per week for a Band C tax payer and yielding £1.8m
  - ii) Adult Social Care precept be increased by 1.0% for 2022/23, representing 29p per week for a Band C tax payer and yielding £0.9m to be passported direct to Adult Social Care.
114. It is vital that the flexibility of the Adult Social Care (ASC) Precept is taken for the following reasons:
- The Service is already experiencing Budget Pressures in the current year which for the 2022/23 are expected to amount to £0.6m
  - The National Living Wage increase of 6.6% plus other inflationary pressures facing the Service amount to £3.7m
  - Additional funding from Government to cover both Adults & Children's Social Care unavoidable cost pressures results in an overall funding shortfall of £4.0m<sup>4</sup>
  - The alternative to not applying the 1% ASC Precept would be to increase the level of savings required by the Service, presenting risks to the wider health system on the Island.
115. The Council could elect not to increase the level of Council Tax by 2.99% but if it chose to do so, would need to identify additional savings over and above the £3.0m savings approved by the Council in February 2021. For every 1% reduction in Council Tax, additional savings of £905,600 will be required.
116. The Council's future forecasts for the period 2023/24 to 2025/26 have been estimated on the following basis:
- i) General Purposes - 1.99% rise each year
  - ii) Adult Social Care Precept - 1.0% rise each year.

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<sup>4</sup> Children's Social Care cost pressures £2.3m, Adults Social Care cost pressures £3.7m less increase in Social Care Grant £2.0m

### Council Tax Base 2022/23

117. The Council Tax Base (i.e. the number of Band D equivalent properties paying the full Council Tax) has been determined as **53,879.9** for 2022/23.

### Collection Fund Balance (Council Tax Element) 2021/22

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

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

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

119. For 2021/22, it is estimated that there will be a surplus on the Collection Fund of £582,900 which will be shared in proportion to the 2021/22 precepts and distributed to the preceptors as follows:

<b>COLLECTION FUND SURPLUS - 2021/22</b>		
<b>Preceptor</b>	<b>Distribution</b>	
	<b>£</b>	<b>%</b>
Isle of Wight Council	497,000	85.7%
Hampshire Police & Crime Commissioner	64,700	10.9%
Hampshire & Isle of Wight Fire & Rescue Authority	21,200	3.4%
<b>Total Surplus 2021/22</b>	<b>582,900</b>	<b>100.0%</b>

The Isle of Wight Council Share of the surplus of £582,900 is factored into the overall Council Tax income for 2022/23.

### Total Council Tax Income 2022/23 & Future Years

120. Considering the Council Tax increase, Council Tax Base and surplus on the Collection Fund, the total Council Tax income for 2022/23 is estimated at £93,771,189.

121. 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 £102,110,700 by 2025/26 and is based on the following assumptions:

- Annual increases in the amount of Council Tax of 1.99% for 2022/23
- Increases of 2.99% per annum from 2023/24 onwards (including 1% p.a for the Adult Social Care Precept)
- Increases in the Council Tax Base of 0.1% per annum for 2023/24 and 2024/25

## ***Funding Summary***

122. Over the following 3 year period of the Council's forecast, funding is anticipated to rise by just 6.2% (or an average of 2.0% p.a), reflecting 2.99% per annum increases in Council Tax, an increase in Government Funding arising out of the overhaul of the Local Government Funding system of £3.0 for the "Island Deal" and the Business Rate Retention "Reset" which will remove £7.1m of Business Rate Growth from the Island and then re-distribute it back to Local Authorities generally on a needs basis.

## ***Spending Proposals 2022/23***

123. In the current financial year a number of Portfolios are exhibiting signs of financial stress, some of which is COVID-19 related and which in the short term can be provided for from the COVID Contingency. Other pressures, particularly in Adults and Children's Social Care are expected to be more long lasting and are provided for within the Budget proposals for 2022/23.

124. Inflation is currently running at its highest for a decade. The main measure of inflation CPI (Consumer Price Index) is currently tracking at 5.4% with the RPI (Retail Price Index), upon which some contracts remain linked, tracking at 7.5%. The Office for Budget Responsibility, the advisors of Government for the purposes of policy setting, are forecasting that CPI will remain high at 3.7% for 2022/23 but falling to 2.3% for 2023/24.

125. Contained within the overall Budget proposal for 2022/23 are almost £10m of additional costs and inflationary pressures as follows:

- Additional Funding for Adult Social Care of £3.7m (to cover the uplift in the National Living Wage of 6.6% that will be passported to care providers as well as all other cost and inflationary pressures)
- Additional Funding for Children's Social Care of £2.3m (to cover inflation, existing overspendings on placements due to increases in caseloads and rising numbers of Care Leavers)
- An inflationary uplift for all Services in order to maintain "steady state" provision amounting to £2.6m (excluding Adults & Children's Social Care above)
- A further £1m to provide for New Burdens passed down from Central Government, additional license costs associated with agile working, costs associated with protecting the Council's systems and information from cyber attacks and some provision to support essential Planning and Environmental functions

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

### ***Revenue Contributions to Capital***

127. As described in detail later in this report, new Capital Investment totalling £39.8m is proposed. This level of investment relies on a number of funding sources provided either by the Council, from external grants and contributions or borrowing where that is supported by a business case. For 2022/23, £7.4m is

being provided by the Council in the form of "cash backed" funding but which is predicated on a Revenue Contribution to Capital of £2m.

128. The level of investment proposed is beyond the ordinary Capital Resources available to the Council and therefore it is proposed to make a Revenue Contribution to Capital of £2.0m, this being provided from within the Revised Budget 2021/22 (£1.3m) and the Budget 2022/23 (£0.7m), which is "one-off in" in nature.
129. 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.
130. Given that this Capital Investment is necessary for the Council's statutory obligations, support to transform the Island's economic potential as well as the Administration's priorities (particularly to provide housing affordable to Island residents), it is vital that the Council makes provision for Revenue Contributions to Capital wherever possible. To fulfil even some of the future obligations and aspirations, further revenue contributions to capital will be required in future years and will need to be embedded within the Council's financial planning process.
131. Due to the affordability constraints, the Council's future forecasts do not assume any contributions available from future Revenue Budgets. It is vital therefore 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*

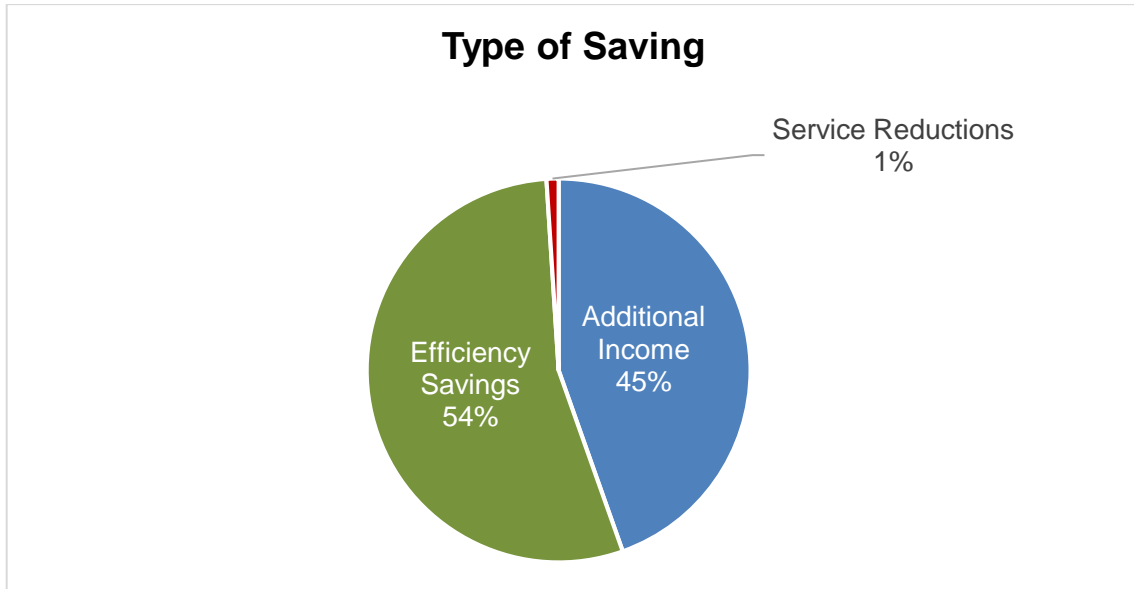
132. Due to affordability constraints, there is no proposed transfer to the Transformation Fund either from the Revised Budget 2021/22 or the Budget 2022/23. Looking forward however, replenishment of this reserve is vital if it is to continue in its capacity to be a vehicle to enable Spend to Save and Invest to Save initiatives to contribute towards the delivery of savings in the future. The Reserve currently contains a modest uncommitted balance of £4.4m 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. In this context, and in the absence of a planned programme of replenishment, it is important that the "standing recommendation" continues to be adopted to enable underspendings arising at the year-end be made available to "top up" the Reserve.

#### ***Savings Proposals 2022/23***

133. Part of the Medium Term Financial Strategy (MTFS) enables proposed savings to be made which have further financial savings benefits in later years and is often referred to as the "full year effect". The extent of the "full year effect" of previous savings decisions "rolling into" 2022/23 is £0.9m and therefore just £2.1m of new savings are proposed for 2022/23.

134. As in previous years, the Medium Term Financial Strategy (MTFS) has advocated an "Avoidance to Cuts" approach wherever possible. The Administration are committed to maximising this approach through a very strong emphasis on income generation going forward.

135. In overall terms, the proposed £3.0m of savings (including the "full year effect") are illustrated below with 99% of all savings expected to be derived from Additional Income and Efficiency Savings:



136. A summary of the overall total (full year effect plus new) savings proposals for 2022/23, by Portfolio, is set out below.

Portfolio	Controllable Budget	Savings Proposal	
	£	£	%
Adult Social Care & Public Health*	52,585,029	1,730,900	3.3%
Children's Services, Education & Lifelong Skills*	26,518,026	375,900	1.4%
Community Protection, Digital Transformation, Housing Provision & Housing Needs	13,007,237	182,000	1.4%
Environment, Heritage & Waste Management	8,087,817	304,500	3.8%
Highways PFI, Transport & Infrastructure**	12,255,527	50,900	0.4%
Leader & Strategic Partnerships	806,763	0	0.0%
Planning & Community Engagement	2,061,733	11,000	0.5%
Regeneration, Business Development & Tourism	4,787,226	234,300	4.9%
Strategic Finance, Corporate Resources & Transformational Change	12,726,167	110,500	0.9%
<b>Grand Total</b>	<b>132,835,525</b>	<b>3,000,000</b>	<b>2.3%</b>

\*Excludes the additional funding passported through to Adult Social Care of £3.7m (which if included would result in an overall increase of 3.7%) and the additional funding for Children's Services, Education & Skills of £2.3m (which if included would result in an overall increase of 7.3%)

\*\* Excludes £19.4m of PFI grant funding, on a Gross expenditure basis the savings amounts to 0.2%

137. Inevitably, there are a number of financial risks contained within the proposals for making savings of the scale of £3.0m on the back of making over £90m in savings over the past 11 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.
138. 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.
139. 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 2022/23***

140. The proposed Budget for 2022/23 has been prepared to include the following:

#### *Spending 2022/23:*

- Cost and Inflationary Pressures - £9.6m
- Continuation of funding through the Improved Better Care Fund (including "Winter Pressures") for the Living Well, Raising Standards Initiative and Reablement services
- A Revenue Contribution to the Capital Programme of £0.7m (**£2.0m in total across the Revised Budget 2021/22 and Budget 2022/23**)
- The £3.0m savings proposals as set out in Appendix 3.
- Balance on the COVID-19 Contingency - £9.1m
- Core 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

#### *Funding 2022/23:*

- An underlying increase in funding from Government of £4.0m, of which £2.1m is described as "One-Off"
- Underlying Business Rate income for 2022/23 is broadly unchanged

- An overall increase in Council Tax of 2.99%, yielding £2.7m
- An increase in the Council Tax base equivalent to 600.3 Band D properties resulting in additional Council Tax income of £1.0m
- A "one-off" surplus on the Council Tax Collection Fund of £0.5m
- A "one-off" deficit on the Business Rate Collection Fund of £6.8m but offset by Government Funding of £6.6m

141. The combination of the spending and funding proposals in the proposed Budget for 2022/23 above combine to provide a balanced and resilient Budget, requiring only a marginal withdrawal from General Reserves of £29,000.

142. The proposed Budget for 2022/23, including the main changes described above results in net spending of £161,087,800. This amounts to a net increase in spending of £9,525,800 or 6.3% over the Original Budget 2021/22 and is recommended for approval.

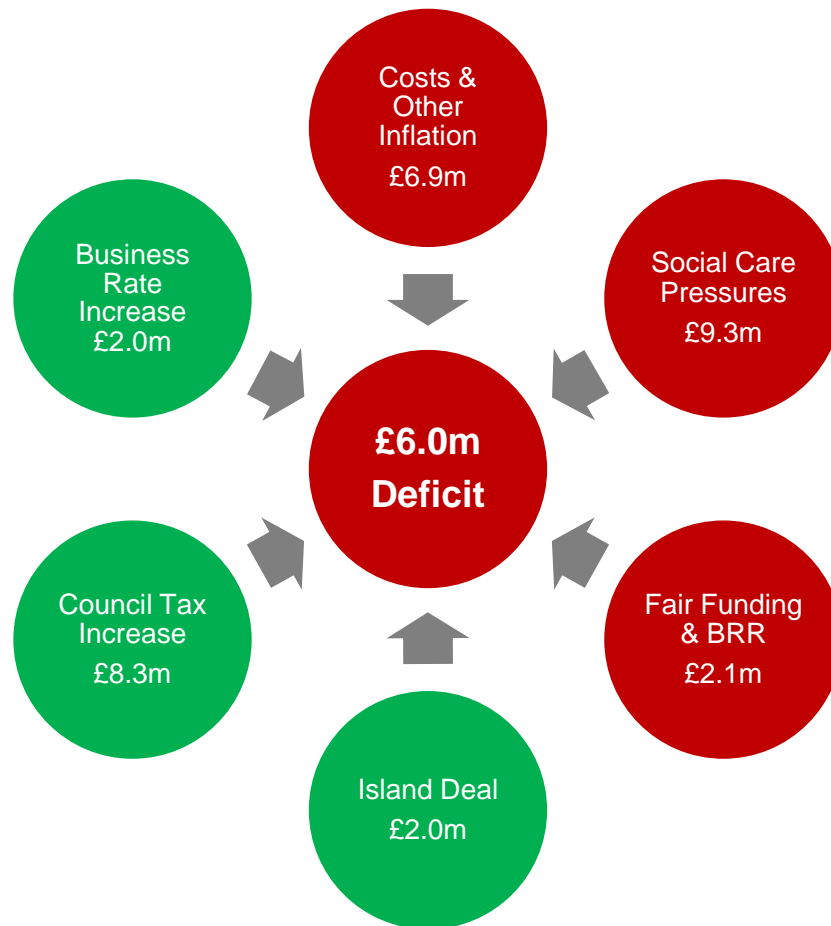
## **REVENUE FORECASTS 2023/24 TO 2025/26**

143. A new medium term forecast has now been completed and "rolled on" a further year to cover the period 2023/24 to 2025/26. All of the financial assumptions have been comprehensively revised and a savings requirement for the new period determined.

144. The previous medium term forecast estimated that savings of £9.0m would be required across the 3 year period 2022/23 to 2024/25. The proposed Revenue Budget for 2022/23 provides for £3.0m of those savings that, based on the "old" forecast, would have left a residual £6m remaining to be found for the following 2 years.

145. The new medium term forecast takes account of the £3.0m savings being achieved in 2022/23, comprehensively revises the remaining £6m that was estimated to be required and makes a forecast for the additional year 2025/26. It is now estimated that the savings required for the new 3 year period 2023/24 to 2025/26 will now be £6.0m. The "smoothing" and "spreading" for the future deficit over 3 years is only made possible by holding "headroom" in General Reserves above their minimum levels.

146. The new Budget Deficit of £6.0m is described in the paragraphs that follow.



147. The most significant assumptions in the medium term future forecasts for the period 2023/24 to 2025/26 are described below:

*Spending:*

- Cost and inflationary pressures in both Adult Social Care and Children's Services of £9.3m (including future uplifts to the National Living Wage in accordance with OBR Forecasts)
- Cost and inflationary pressures in all other Services of £6.9m 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)
- The ending of Revenue Contributions to Capital and the Transformation Reserve after 2022/23
- An assumption of a steady state for all budgets.

*Funding:*

- A net loss in Government funding, mainly arising from the Fair Funding Review and Business Rate Retention scheme of £2.1m, phased in from 2023/24 onwards (**Note: the Business Rate "Reset" will remove £7.1m of growth which may not be fully re-distributed through the Fair Funding Review**)
- An increase in funding arising from the "Island Deal" of £2m (**Note: This is £3m in total however £1m is built into the Budget for 2022/23**)



- A 2.99% increase in Council Tax per annum from 2023/24 onwards which includes 1.0% per annum for an Adult Social Care Precept) accompanied by a marginally improving Tax Base, in total yielding £8.3m
- Indexation uplifts on retained Business Rates of 3.7% for 2023/24, 2.3% for 2024/25 and then at 2.0% for 2025/26
- An underlying zero growth assumption for changes in Business Rates from 2023/24 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.

148. Future funding from Government from 2023/24 onwards is heavily dependent on the outcome of the Fair Funding Review and Business Rate Retention scheme review. It must be recognised that the outcome of these reviews remains uncertain.

149. The outcome of the Council's representations in relation to the unique additional costs associated with delivering services on the Island also remains uncertain and therefore presents a £3m risk to the forecast.

150. It is also important to recognise that this forecast extends beyond the Fair Funding Review and the revised Business Rate Retention Scheme due to be implemented in 2023/24. It 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 £6.0m forecast deficit which could realistically vary between +/- £3m.

151. It is proposed that the Council takes an evenly managed approach to addressing the £6.0m of savings required over the next 3 years by phasing those savings evenly, as set out below, in order to provide reasonable time for plans and the necessary proposals to be prepared and implemented.



152. Due to the uncertain nature of the future years' forecasts, it is imperative that the Council continues to plan for £2.0m of savings per annum as well as maintaining sufficient General Reserves. This is a balanced approach, appropriate to an eventuality where the Council's forecasts are either too pessimistic or too optimistic. For example, in the event that the 3 year forecast improves, the Council has not prematurely made a level of savings and service reductions that could have been avoided and it allows more time for savings initiatives to take effect. If the forecast deteriorates, the Council will have made good progress

towards the necessary savings and have sufficient General Reserves to avoid significant "spikes" in Savings Requirements in any single year in the future.

153. Crucially this savings strategy, as described above, can only work if the Council retains General Reserves and the COVID Contingency at the levels set out in this report. 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.
154. In summary, the overall forecast budget deficit and therefore savings requirement, has been reduced for both 2023/24 and 2024/25 and the forecast has been "rolled on" to now include the financial year 2025/26. The overall forecast budget deficit and savings requirement for the 3 year period 2023/24 to 2025/26 is £6.0m. Importantly, this level of budget deficit can only be maintained if the Council approves the proposed £3.0m of savings as well as the increase in Council Tax of 2.99% for 2022/23.
155. The medium term financial forecasts are set out as part of the General Fund Summary in Appendix 1.

## **ESTIMATED RESERVES 2021/22 TO 2025/26**

156. In general, maintaining adequate reserves is a measure of responsible financial management and strong financial health. They are required in order to be able to respond to "financial shocks" without having to revert to the alternative of quick and severe services reductions. Equally, they can be a vehicle to take advantage of any opportunities that may arise which are in the financial interests of the Council (for example, matched funding opportunities which could lever in additional funding for the Island). Importantly, they also enable differences between expenditure and funding levels to be "smoothed out" and "spread out" in a managed and planned way over time.
157. 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.
158. 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 Contingency of £9.1m
- 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. £90m)
- The required level of future savings necessary to remedy the forecast deficit of £6.0m
- The inherent volatility of the Business Rate Retention system (previously described) both now and in the future
- 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.

159. Predicated on the approval of £3.0m savings for 2022/23 and the retention of the COVID Contingency of £9.1m 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.

160. Should the Council not provide a COVID Contingency as proposed, the minimum level of Reserves will necessarily need to increase.

161. The statement below gives details of the General Reserves in hand at 01 April 2021, together with the proposed use of reserves in 2021/22 and 2022/23 arising from the Budget proposals contained within this report. The forecast balances from 2023/24 onwards **assume that the £6.0m savings requirements set out in the previous section are achieved according to the profile described.**

<b>General Reserves Forecast – Up to 2025/26</b>					
<b>Financial Year</b>	Current Year £m	Forecast 2022/23 £m	Forecast 2023/24 £m	Forecast 2024/25 £m	Forecast 2025/26 £m
<b>Opening Balance</b>	13.6	11.0	11.0	9.0	8.3
<b>In Year Surplus / (Deficit)</b>	(2.6)	(0)	(2.0)	(0.7)	0.0
<b>Forecast Balance</b>	<b>11.0</b>	<b>11.0</b>	<b>9.0</b>	<b>8.3</b>	<b>8.3</b>

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

- The susceptibility of the Council's forecast to the outcome of the Fair Funding Review and the Business Rate Retention "reset" which could vary by +/- £3m
- The strategy to "smooth out" and "spread out" the Council's necessary savings over longer periods of time, relying on the use of Reserves in some years whilst Savings requirements "catch up"

- The continuing risks associated with the financial sustainability for both Adult Social Care and Children's Services. For example, should the recommended £3.0m savings not be achieved in 2022/23, General Reserves would be close to minimum levels by March 2023.
- The balances are predicated on further savings (as yet unidentified) of £6.0m being achieved over the following 3 years. If those savings are not made, balances would be at minimum levels by March 2024.
- The uncommitted balance available in the Transformation Reserve of just £4.4m (see below) means there are only limited funds available to fund the implementation costs of future efficiency savings.

163. General Reserves are anticipated to fall to £8.3m by March 2025. 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 £8.3m with an associated level of "headroom" of just £1.3m 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.

164. In addition to General Reserves, the Council has established a Transformation Reserve which has a current uncommitted balance of £4.4m. This reserve was established as one of the Council's primary vehicles to deliver savings. Often, transformation schemes aimed at significant cost reduction or income generation in line with the Administration's aspirations will be of a scale and complexity that require up front resources, especially if they are to proceed at pace.

165. It is anticipated that due to the nature and scale of some of the savings proposals in 2022/23, there will be a need to provide up-front funding from this reserve particularly in Adult Social Care and Children's Services to support their delivery.

166. Maintaining the Transformation Reserve at sufficient levels to support savings delivery through "Spend to Save", "Invest to Save" and "Invest to earn" schemes is vital to the success of the MTFS and the Council's future Savings Requirements. Accordingly, a strategy for its replenishment is a necessity if this Reserve is to continue to deliver against its intended purpose.

167. 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.

168. 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.

169. For the Council to meet the overall aim of its MTFs, it is important to strike the optimum balance between its key drivers of:

- Delivering savings (income, efficiencies and service reductions) over a manageable period of time which is consistent with maintaining good quality essential services
- Provide sufficient funding for Spend to Save, Invest to Save and Invest to Earn, initiatives through the Council's Transformation Reserve
- Ensure that the Capital Programme is sufficiently funded over the medium term to stimulate the Island Economy and improve the Council's overall financial position
- Maintaining General Reserves at levels that ensure strong financial resilience and financial health to provide a stable platform for all of the above.

170. 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 2021/22 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 2021/22 TO 2026/27**

### ***Overall Strategy***

171. 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.

172. 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**

173. Capital resources available for 'new starts' in 2022/23 and onwards have been reviewed and the amount available to be allocated has been determined as £39.8m. This is a much higher figure than usual as this includes significant levels of borrowing described in further detail in the following paragraphs.

174. 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.

175. The total capital resources available to the Council for 'New Starts' in 2022/23 and onwards are described below:

## Corporate Capital Resources

176. 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 £5.5m contribution from the Revenue Budget (including the £2.0m as proposed in this report)
- Integrated Transport Block Grant of £2.3m 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 £2.2m. In addition, the Devolved Formula grant, which is ring-fenced, is passported to schools in the sum of £263,000
- Capital receipts totalling £1.9m from the sale of council assets or the repayments of previous capital grants
- Deletion of the existing "Average Speed Cameras" capital scheme of £0.3m
- Other capital resources.

## Ring-fenced Capital Funding

177. Ring-fenced capital funding includes the following:

- Funding of £2.3m is passported to the Better Care Fund which is targeted at Disabled Facilities Grants and wider social care programmes. This is required to be prioritised by the Council and the Isle of Wight Clinical Commissioning Group

## Prudential Borrowing

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

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

180. 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).

181. 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.
182. Prudential Borrowing of £25m has been included in the programme for new housing affordable to Island residents. Schemes coming forward within this £25m allocation will undergo rigorous appraisal to ensure that they are financially viable and meet the Prudential Code requirements before receiving final approval to proceed from the S.151 Officer.

#### Capital Investment Proposals ("New Starts") - 2022/23

183. Proposals for the allocation of the Council's 'new start' capital resources of £39.8m are set out in Appendix 4 for approval. They comprise a balanced set of proposals which:
- Ensure the medium term resilience of essential core services and facilities
  - Supports the delivery of the council's key areas of activity focussing on the provision of housing affordable to Island residents, responding to climate change and enhancing the biosphere and economic recovery.
  - Complements the existing capital programme and further supports the council's financial viability for the medium term.
  - Invests in Schools
  - Invests in care facilities including adaptations to peoples' homes
  - Invest in highways network integrity priority works, the public realm and rights of way
  - Complements the existing capital programme and further supports the council's financial viability for the medium term.

#### Proposed Capital Programme 2021/22 to 2026/27

184. 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

185. 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.



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

*Statutory Obligations:*

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

*Improving the Island Economy:*

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

*Public Service Transformation:*

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

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

188. Given the scale of the "Capital Gap" described above, the necessity to supplement the Capital Resources available remains an explicit feature of the Council's approved MTFS so that the Council can continue to fund essential services but also fund Regeneration and Income Generation schemes aimed at improving the overall financial sustainability of the Council and the economy of the Island. For this reason, it is recommended that the S.151 Officer be given delegated authority to transfer all or part of any further savings made in 2021/22 arising at the year-end to supplement the Capital Resources available for future years.

189. As previously described, given the known lack of funding available for the Council's Capital Investment needs from 2023/24 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**

190. 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.

191. 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 2022/23. Particular uncertainties exist regarding:

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

192. 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.

193. 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***

194. 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.
195. Estimates and forecasts have been prepared to include all known significant financial factors over the medium term in order to inform spending decisions.
196. 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 2023/24 to 2025/26" and use the following sources as their evidence base:
  - Government funding as set out in the provisional settlement for 2022/23
  - An assumption that the overall outcome of the Fair Funding Review and Business Rate Retention scheme review will lead to a net reduction in funding of £2.1m, but phased over 3 years
  - An increase in funding of £3m for the "Island Deal"
  - A "no growth" assumption for Retained Business Rates from 2023/24 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 based on the most up to date information from the Valuation Office Agency
  - Increases in Council Tax based on what is likely to be acceptable and within expected referendum limits
  - Inflation on Retained Business Rates and prices in accordance with inflation estimates from the OBR
  - Specific provisions for increases in demand for both Adult Social Care and Children's Services based on current trends
  - Prudential borrowing requirements based on approved Capital Schemes
  - Revenue contributions to Capital based on known commitments and estimates of future needs
  - Balances and contingencies based on a risk assessment of all known financial risks.
197. 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.

198. 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.
199. 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.
200. 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.
201. 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 2023/24 and future years.
202. 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 £2.0m in 2023/24, £2.0m in 2024/25 and £2.0m in 2025/26

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

203. 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.
204. 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.
205. The level of General Reserves held will be higher than the minimum level required. This approach is in accordance with the approved MTFs in order to "smooth out" and "spread out" the necessary savings to meet the future forecast budget deficits in a planned and managed way. The position will continue to be reviewed and reported to Members on an annual basis.
206. 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 £4.4m. 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.

207. 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.
208. The Council's core contingency provision for 2022/23 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.
209. 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**

210. The Council's Budget for 2021/22 and 2022/23, the level of Council Tax and the Capital Programme 2021/22 to 2026/27 represent the Council's detailed plan for 2022/23 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**

211. The proposals set out in this report have been prepared in consultation with the Cabinet.
212. The Portfolio savings amounts proposed within this report will inevitably impact on service provision, although service reductions are expected to be limited. 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.
213. An Island-wide budget consultation took place over the period 14 December 2021 to 21 January 2022 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**

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

## **LEGAL IMPLICATIONS**

215. The council will need to set a lawful and balanced budget and Council Tax level for 2022/23 by the statutory deadline of 11 March 2022. In developing any proposals for budget changes, the necessary Equality Impact Assessments and any consultation processes will need to be followed.
216. 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**

217. 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).
218. The savings proposals set out within this report are proposals only for the purposes of setting Portfolio Cash Limits and the overall Council Budget. Whilst most are likely to be implemented, there will be some that require further consultation and appropriate Equality Impact Assessments to be considered before any implementation can take place. For this reason, Portfolio holders have the discretion to alter, amend or substitute any proposal with an alternative proposal following appropriate consultation. An Equality Impact Assessment will be annexed to the report to Full Council in respect of the relevant proposals that arise out of these recommendations.

## **PROPERTY IMPLICATIONS**

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

## **OPTIONS**

220. The proposed Budget for 2021/22 and 2022/23, 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 2022/23:**

- 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 £905,600
- iii) Increase the use of General Reserves used in 2022/23 and reduce the level of savings accordingly, acknowledging that:
  - (a) In doing so, the level of savings in 2023/24 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 2021/22 to 2026/27 as set out in Appendix 5:**

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

## **RISK MANAGEMENT**

221. 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.

222. The key risk is that the Council does not approve a Revenue Budget for 2022/23 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.
223. 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".
224. 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

225. Option **A (i)** and **B (i)** are recommended. The Budget and Council Tax proposals set out in this report are part of a cohesive plan which conforms to the Council's approved Medium Term Financial Strategy (MTFS) and is consistent with the Council's Corporate Plan. In particular:
- It proposes a Budget that is in "Structural Balance"
  - It provides £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 a COVID-19 Contingency expected to be sufficient to cover the financial impact of the pandemic over the next 3 years, providing financial resilience through an uncertain period and therefore a good degree of confidence in the sustainability of essential Council Services
- It provides for a "smoothing" and "spreading" of savings over a planned period enabling the Council to maximise its operational capacity to implement initiatives aimed at increasing income / funding and reducing costs and providing time for the "alternative to cuts" initiatives to take effect
- It reduces the overall Savings Requirements for future years from £3.0m per annum to £2.0m per annum and evenly phased
- 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
- An increase in Council Tax of 2.99% 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 £2m additional funding from the Revenue Budget to the Capital Programme enabling a total capital investment of £39.8m, which in particular, will enable the Council to invest in new housing affordable to Island residents.

## RECOMMENDATION

226. It is recommended that the Cabinet endorse the following:

- (a) The recommendations to the Council set out below.

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

- (a) The revised Revenue Budget for the financial year 2021/22 and the Revenue Budget for the financial year 2022/23 as set out in the General Fund Summary (Appendix 1) which includes:
  - (i) A Revenue Contribution to Capital of £2.0m, to support the provision of housing affordable to Island residents
  - (ii) The COVID Contingency estimated at £9.1m, to guard against continuing and legacy risks
- (b) Any variation arising from the Local Government Finance Settlement 2022/23 or any further savings made in 2021/22 arising at the year-end (after allowing for specific carry forward requests) be transferred to the Revenue Reserve for Capital, COVID Contingency, Transformation Reserve, and General Reserves with the level of each transfer to be determined by the S.151 Officer.
- (c) That the level of Council Tax be increased by 1.99% for general purposes in accordance with the referendum threshold<sup>5</sup> for 2022/23 announced by Government (as calculated in Appendix 2)
- (d) That the level of Council Tax be increased by a further 1.0% 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 £905,600 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 2022/23 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 £3.0m for 2022/23 and continuing into future years as set out on the next page:

Portfolio	Controllable Budget	Savings Proposal	
	£	£	%
Adult Social Care & Public Health*	52,585,029	1,730,900	3.3%
Children's Services, Education & Lifelong Skills*	26,518,026	375,900	1.4%
Community Protection, Digital Transformation, Housing Provision & Housing Needs	13,007,237	182,000	1.4%
Environment, Heritage & Waste Management	8,087,817	304,500	3.8%
Highways PFI, Transport & Infrastructure**	12,255,527	50,900	0.4%
Leader & Strategic Partnerships	806,763	0	0.0%
Planning & Community Engagement	2,061,733	11,000	0.5%
Regeneration, Business Development & Tourism	4,787,226	234,300	4.9%
Strategic Finance, Corporate Resources & Transformational Change	12,726,167	110,500	0.9%
<b>Grand Total</b>	<b>132,835,525</b>	<b>3,000,000</b>	<b>2.3%</b>

\*Excludes the additional funding passported through to Adult Social Care of £3.7m (which if included would result in an overall increase of 3.7%) and the additional funding for Children's Services, Education & Skills of £2.3m (which if included would result in an overall increase of 7.3%)

\*\* Excludes £19.4m of PFI grant funding, on a Gross expenditure basis the savings amounts to 0.2%

- (h) Directors be instructed to start planning how the Council will achieve the savings requirements of £6.0m for the 3 year period 2023/24 to 2025/26 and that this be incorporated into Service Business Plans
- (i) The minimum level of Revenue Balances as at 31 March 2023, predicated on the approval of £3.0m savings in 2022/23 and the retention of the COVID Contingency of £9.1m, 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 2021/22 to 2026/27 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") - 2022/23 set out in Appendix 4 be reflected within the recommended Capital Programme 2021/22 to 2026/27 and be funded from the available Capital Resources

<sup>5</sup> Council Tax increases beyond the referendum threshold can only be implemented following a "Yes" vote in a local referendum

- (m) The allocation of Disabled Facilities Grants be made to the Better Care Fund, and reflected within the recommended Capital Programme 2021/22 to 2026/27
- (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).

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

- (a) The Revenue Budget 2022/23 as set out in Appendix 1 has been prepared on the basis of a 2.99% increase in Council Tax, any reduction from the overall 2.99% Council Tax increase proposed will require additional savings of £905,600 for each 1% reduction in order for the Budget 2022/23 to be approved
- (b) The Revenue Forecasts for 2023/24 onwards as set out in the section entitled "Revenue Forecasts 2023/24 to 2025/26" and Appendix 1
- (c) The estimated Savings Requirement of £6.0m for the three year period 2023/24 to 2025/26, for financial and service planning purposes, be phased as follows:

<b>Financial Year</b>	<b>In Year Savings Requirement £m</b>	<b>Cumulative Saving £m</b>
2023/24	2.0	2.0
2024/25	2.0	4.0
2025/26	2.0	6.0

- (d) The Transformation Reserve held to fund the upfront costs associated with Spend to Save Schemes and Invest to Save Schemes holds a very modest uncommitted balance of £4.4m and will only be replenished from contributions from the Revenue Budget and an approval to the transfer of any further savings at year end
- (e) Should the Council elect to reduce the level of savings below £2.0m in 2023/24 (and £2.0m p.a. thereafter), the Council's financial risk will increase and therefore the minimum level of General Reserves held will also need to increase in order to maintain the Council's financial resilience

- (f) The Council Tax base for the financial year 2022/23 will be 53,879.9 [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 2021/22 is estimated to be in surplus by £582,900 which is shared between the Isle of Wight Council (85.7%) and the Police & Crime Commissioner (10.9%) and the Hampshire & Isle of Wight Fire & Rescue Authority (3.4%)
- (h) The Business Rate element of the Collection Fund for 2021/22 is estimated to be in deficit by £6,842,482
- (i) The Retained Business Rate income<sup>6</sup> for 2022/23 based on the estimated Business Rate element of the Collection Fund deficit as at March 2022, the Non Domestic Rates poundage for 2022/23 and estimated rateable values for 2022/23 has been set at £31,140,075.

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<sup>6</sup> Includes Retained Business Rates of £16,196,499, "Top Up" of £11,695,357, S.31 Grants of £10,090,701 a Collection Fund deficit of £6,842,482

## APPENDICES ATTACHED

229. The following appendices are attached:

- Appendix 1 - General Fund Summary
- Appendix 2 - Council Tax 2022/23 (calculated by the Council for the financial year 2022/23 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 2022/23
- Appendix 4 - New Capital Schemes starting in 2022/23
- Appendix 5 - Capital Programme 2021/22 to 2026/27

## BACKGROUND PAPERS

230. 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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*Cabinet Member for Strategic Finance, Corporate  
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