



**Narrative Report to the  
Isle of Wight Council's  
Statement of Accounts  
2022/23**

# Introduction

This narrative report has been produced to provide information on the Council, its main objectives and strategies and the principal risks it faces, as well as providing a commentary on how the Council has used its resources to achieve its desired outcomes. It provides a fair, balanced and understandable analysis of the Council's performance and summarises the key elements of the more detailed information included in [the statement of accounts](#). It also signposts other key documents and sources of information that are available if further detail is required.

# The Council

The Isle of Wight Council is responsible for virtually all statutory local government activities on the Island as well as many discretionary services considered to be important to the local community. The Council is composed of 39 [councillors](#) who meet to decide the Council's overall policies and set the revenue budget and capital programme each year, as well as holding the Cabinet to account. [Our constitution](#) sets out the rules and procedures by which the Council operates.

The Cabinet is made up of the Leader and other councillors, each with a [portfolio of responsibilities](#) and is responsible for most day-to-day decisions. The Cabinet has to make decisions which are in line with the Council's overall policies and budget because whilst the budget, plans and strategies will be proposed by the Cabinet, it is Full Council that decides whether to accept or amend these proposals. This is part of the Council's wider governance framework which is reported on annually in an [Annual Governance Statement](#). Please note that this narrative report looks back at our plans and performance over the period 2022/23 and therefore refers to documents and strategies which were in place at that time.

Implementing the Council's policies and budgets are the Council's staff complement which includes some key posts shared with mainland authorities. This gives us the ability to exploit the skills and experience of far larger authorities whilst ensuring that our autonomy is maintained.

Our Councillors and our workforce, along with many other organisations, underwent a massive shift in working practices during 2020, when the national lockdown began in response to the COVID-19 pandemic. Thanks to significant investment in digital technologies in the past few years, we were well placed to respond to this and able to work in smarter and more agile ways to support decision making and maintain key services to our community from the outset.

**Save time, do it online...**

Did you know that you can do most of your business with the Isle of Wight Council online?

More enquiries and tasks are now undertaken online, providing a quicker, easier, more flexible service to Islanders.

- Pay your council tax or parking fine
- Change your address with the council
- Check your waste collection
- Apply for housing benefit or council tax support
- Access information, advice and guidance and much more...

**For council tax, you can:**

- set up a direct debit;
- pay your bill;
- view your outstanding balance;
- register for paperless billing;
- apply for housing benefit and council tax support;
- change your address;
- view information about discounts, exemptions and other council tax queries – check out the full council tax information leaflet for 2019 online too!

# Our Strategic Priorities and Direction

In November 2021, the Council's Alliance Administration published the new corporate plan outlining its strategic priorities and direction for the period 2021-2025. The Alliance priorities are set against a clear aim to work together openly and with our communities to support and sustain our economy, environment and people. The corporate plan sets out key areas of activity that will be our main focus and will be central to everything we do:

**Provision of affordable housing for island residents** - we will work to increase the rate of affordable housing. We will need to use public and private assets to increase the availability across the Island. We will work to bring empty properties back into use, including compulsory purchases, encourage housing associations to increase their rate of delivery of new homes and we will look to secure investment that will allow the Council to promote the delivery of affordable homes.

**Responding to climate change and enhancing the biosphere** - an action plan has been introduced to guide the work needed to achieve the climate change strategy of a net carbon zero council by 2030, across the school estate by 2035 and as an island by 2040. We will need to both support and exploit our position as a UNESCO Biosphere Reserve to lever in funding and support for this work. We will work closely with town, parish and community councils to support them in helping to deliver our aspirations and we will challenge the utility companies and our partners to support us in making the Island a sustainable place to live and work. In so doing we will look to also address issues of fuel poverty and health inequalities by making homes more energy efficient and by creating new opportunities for local people to make better use of the landscape to support their well being. Over and above this, going forward, every decision taken must have regard to the need to reduce the Council's and the Island's carbon footprint and enhance our biosphere status.

**Economic Recovery** - the core strengths of the island economy remain as a platform for recovery, the investment in high speed broadband, the increased interest in quality of life, open green space and the highly connection attractions of island life all combine to enable continued promotion of the Isle of Wight as a great place for business. Having good premises and a strong local skills pool are also key factors in helping realise our regeneration ambitions. Our investments with partners in the provision of high-quality business accommodation which reflects the new more flexible requirements of a post pandemic workforce, further supports the island offer. Growing our skills base and retaining our workforce in key sectors such as hospitality and social care will be a key challenge for the next five years as will helping those who have lost time for education to recover and achieve their personal goals. These will be key aspects of our island skills plan.

The corporate plan directs the allocation of the Council's resources to its annual revenue budget and capital programme, which in turn are underpinned by a medium term financial strategy; capital and investment strategies; a treasury management strategy; and a risk assessment of levels of financial balances and reserves. The corporate plan is also underpinned [by a risk management framework and performance reporting](#) regime which are reported quarterly throughout the year in the Cabinet Committee papers.

# The Risks

The Council has adopted a risk management framework that records strategic, service, programme and project risks in a risk register which enables us to regularly review and evaluate risks. It also records appropriate plans to mitigate those risks, whether that be by avoiding that activity in future, carrying on and accepting the consequences, transferring some or all of the risk to a third party, taking action to lower the probability or impact of the risk occurring, or exploiting an opportunity that may have arisen as a result of the risk being identified. Cabinet and Audit Committee receive regular reports on risks, in particular strategic risks which are those that have the potential to prevent the council from achieving its strategic priorities and the outcomes detailed in the corporate plan.

The strategic risk ratings for 2022/23 (as reported to cabinet in June 2023), are summarised in the table below with a comparison to the ratings for 2021/22 (as reported in February 2022).

	2021-22	2022-23
Lack of financial resource and the ability to deliver the councils in year budget strategy	AMBER	GREEN
Lack of financial resource and the ability to deliver the councils medium term financial strategy	RED	AMBER
Insufficient staffing and skills	AMBER	RED
A change in organisational culture fails to keep pace with the speed of organisational change negatively impacting on the delivery of the required transformation to deliver the corporate plan	GREEN	AMBER
Failure to improve educational attainment	AMBER	AMBER
Failure to identify and effectively manage situations where vulnerable children are subject to abuse	AMBER	AMBER
Failure to recruit acceptable quality of professional practice across Adult Social Care and Housing Needs	AMBER	AMBER
Failure to identify and effectively manage situations where vulnerable adults are subject to abuse	AMBER	AMBER
Failure to secure the required outcomes from the integration of adult social care and health	AMBER	GREEN
Independent Social Care Sector Sustainability (care homes and home care)	RED	RED
Failure of the waste contract resulting in significant financial and operational disruption for the council and its residents	AMBER	AMBER
Failure of the highways PFI contract resulting in significant financial and operational disruption for the council and its residents	AMBER	AMBER
Achieving the vision for the Island	RED	RED
Dealing with threats to business continuity (including cyber incidents)	AMBER	AMBER
Additional demands placed on the Isle of Wight Council and partners owing to pandemic flu or similar large scale outbreaks	RED	RED
Ability to manage the impact of the cost-of-living crisis (CoLC) on the council's activities and sustain service delivery	N/A	RED
Failure of coastal defences (where the policy is to "hold the line") resulting in high risk to people, property, infrastructure and land, significant impact on communities and the council finances. The Isle of Wight Council has a vested responsibility for controlling coastal erosion	N/A	RED

# The Financial Challenge

Since 2011, savings of over £93m will have already been made (over 40% of controllable spend) due to a combination of government funding reductions and increasing demographic pressures, particularly in Adults and Childrens Social Care. Adults social care and children's services represent more than 60% of our controllable spend, but are the hardest in which to manage demand and have historically received significant protection from savings, often resulting in proportionately higher savings across other council services.

The financial environment changed rapidly through 2022/23 precipitated by the war in Ukraine, the existence of practical full employment in the economy and strains on international supply chains due to Covid lock-downs. As a consequence, inflation as measured by the Consumer Price Index (CPI) accelerated and peaked In October 2022 at 11.1%, the highest in over 40 years. The continuing financial impact on the council arising from the Covid legacy and cost of living crisis remains extremely uncertain and we have yet to see many commercially provided services (e.g. leisure) continue to recover to pre-pandemic levels of income generation. Resource shortages continue to be an issue, impacting on both our own workforce and that of contractors and we are also experiencing price pressures for materials, which is largely out of our control. In addition, the cost of living crisis which began to develop in 2021 is now impacting severely on costs associated with those materials (particularly in some of our large building projects). Of course the Council recognises that whilst it struggles with this, many Island families are facing financial hardship from increasing costs across many domestic supplies. The council is committed to supporting the community where it can and whilst many of these issues are worldwide and beyond our influence, we have adopted a corporate plan which includes priorities around economic recovery, affordable housing and climate change.

The Council's [Medium Term Financial Plan](#) (MTFP) adopted in 2016 and revised each year, continues to put us in a good position to respond to these challenges and looking forward has a strong focus on regeneration and building financial resilience by:

- Smoothing out savings requirements to avoid 'front loading' and buy time;
- Rebuilding reserves and balances;
- Providing funding to pump prime 'invest to save' initiatives;
- Maximising capital resources that can stimulate economic regeneration, jobs and housing;
- Targeting other resources to regeneration and transformational change; and
- Embedding a financial framework that promotes longer term planning, encourages more responsible spending, improves decision making and aligns financial accountability and discipline.

Continuing to ensure that Island resources are used in the most effective and efficient way to support and protect our community, whilst providing value for money is the most important thing that we must do as a council. The Council continues as we move forward, along with Government and partners, where and how we can use our resources to best help those who need it most, and how we build resilience against possible future events.



# Our Revenue Spending

Where the Council has costs related to the day to day provision of services e.g. salaries, supplies and services, utilities, etc., these costs are called revenue expenditure. The amount of revenue we can spend depends on the revenue funding we receive from various sources.

During 2020/21 a COVID contingency was established to provide a good level of surety that the Council would be able to deliver all of its essential services as well as being able to respond to the continuing COVID-19 pandemic and its legacy impact. Draw downs from this contingency during 2022/23 have enabled us to manage the continued financial impact of COVID, particularly around the slow recovery of income generating services such as leisure and car parking, and the impact the pandemic has had on demand for social care. Despite the challenges faced by the Council, it ended the 2022/23 financial year with an underspend of £2.4m (1.5% of the net revenue budget). This has enabled additions to be made to the general fund reserve, transformation reserve, and the revenue reserve for capital which will support future years financial planning and our ability to prepare our financial statements on a going concern basis.

Portfolio/Service Area	Budget £000	Actual Spend £000	Actual Pressure/- Saving £000
Adult Social Care & Public Health	57,110	60,300	3,190
Children's Services, Education & Lifelong Skills	32,133	33,730	1,597
Digital Transformation, Housing, Homelessness & Poverty	9,654	9,063	-591
Climate, Environment, Heritage, HR, Legal & Democratic	7,177	7,259	82
Infrastructure, Highways PFI, Transport	16,001	15,201	-800
Leader & Strategic Partnerships	1,281	893	-388
Planning & Enforcement	1,162	1,107	-55
Community Protection, Regulatory & Waste	5,259	5,379	120
Levelling Up, Regen, Bus. Development & Tourism	2,130	1,945	-185
Strategic Finance, Transformational Change & Corporate Resources	28,599	23,869	-4,730
<b>Total</b>	<b>160,506</b>	<b>158,746</b>	<b>-1,760</b>
NNDR S31 Grant adjustments		-605	-605
	<b>160,506</b>	<b>158,141</b>	<b>-2,365</b>
Transfer to General Fund Reserve			1,000
Transfer to Transformation Reserve			1,000
Transfer to Revenue Reserve for Capital			365
<b>Net Final Position</b>			<b>0</b>

# Our Capital Spending

The Council can also spend on one off capital projects. These are one off items of spend, which are time limited and create or improve assets that have a life of more than one year, such as buildings, land and equipment. Once again the amount we can spend on capital projects depends on the capital funding we receive from various sources.

The table to the right shows spend across the councils portfolio areas and how that was funded.

The Council delivered £28m of capital projects during 2022/23 despite contractor shortages and delays in the delivery of materials. The main areas of spend were in schools including the new build primary schools funded from the Priority Schools Building Programme; in relation to the Ryde Transforming Cities fund, capitalised costs within the PFI contract; disabled facilities grants made to support people returning to or staying in their own home; decarbonisation of council properties; and the development of Branstone Farm, a prime regeneration site for the Island.

Work also continued on the development of the East Cowes marine park and Ryde cultural venue both of which will continue in 2023/24.

The Council has budgeted a further £165m for capital schemes over the next 5 years including £32m for coastal protection schemes to protect homes and employment (levering in funding from Government); £12m investment into school buildings (funded mainly from grant); £5m into waste recycling and disposal; £16m for highway improvement and safety schemes (funded mainly from grant); and £76m for regeneration schemes including £40m for housing.

Spend by Portfolio		£000s
Adult Social Care, and Public Health		225
Children's Services, Education and Lifelong Skills		7,890
Digital Transformation, Housing , Homelessness & Poverty		2,873
Climate Change, Environment, Heritage, HR, Legal & Democratic Services		930
Infrastructure, Highways PFI & Transport		7,432
Leader and Strategic Partnerships		0
Planning and Enforcement		0
Community Protection, Regulatory & Waste		813
Levelling Up, Regeneration, Business Development & Tourism		6,577
Strategic Finance, Transformation Change & Corporate Resources		
<b>Total Expenditure</b>		<b>28,868</b>
Funded from		
Borrowing		24,338
Corporate resources incl capital receipts		3,251
Grants		1,279
<b>Total funding</b>		<b>28,868</b>

## Balances and Reserves

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. 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 agreement to provide for a COVID-19 contingency
- The current relatively low level of General Reserves representing just 3.1% of gross expenditure
- The increasing susceptibility to budget pressures given the magnitude of savings that have been made in the past (i.e. £93m)
- The required level of future savings necessary to remedy the forecast deficit of £6.0m
- The inherent volatility of the Business Rate Retention system 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.

General Reserves Balances	Actual 2022/23 £m
Opening Balance	12.0
In Year Surplus/Deficit	1.0
Closing balance	13.0

It is considered, given the weight of financial risk being carried by the Council and the other reserves that are maintained for specific purposes, that the minimum General Reserves that should be maintained is £8.0m.

## Borrowing and Investments

Councils are also allowed in some circumstances to borrow, either to fund capital projects or to ensure that money is available at key points in the month or year, when large payments are due. The Council tries to minimise borrowing where possible and when necessary take short term borrowing at low interest rates. Councils can also invest funds where income is received in advance of spend, or where they hold reserves and balances. Our objective when investing money is primarily to protect the sum invested from default before any consideration of the level of return achieved. Note 18 of the statement of accounts details the Council's borrowing and investments. Further information on the Council's borrowing and investments can be found in the [Treasury Management Strategy](#).



# What we delivered

Many council services were impacted significantly by the COVID-19 pandemic and are still in the process of recovery alongside continued pressures as a result of the current cost of living crisis. Despite this, the council has also continued to focus on the wider island recovery and positive steps have been made towards achieving our corporate plans key priorities. Some of those achievements include:

- The first residents and businesses moved into the development at Branstone Farm to provide a multi unit business park and housing, with the project winning 'Construction Project of the Year' at a regional business awards event.
- The official opening of Building 41 took place, providing high quality co-working and office space after the project was delivered on time and within budget.
- Significant progress was made on the Ryde transport Hub project, in particular across the west and east of the interchange.
- 'Decarbonisation' of many of the councils buildings with the introduction of more energy efficient heating and power systems including air source heat pumps and solar power, as well as better doors, windows and insulation being installed.
- The connect4communities programme delivered support to families with young children and those in need, providing funding to set up community pantries, and grants for community and voluntary organisations to assist those struggling with energy, food and water bills.
- Work on the new Freshwater & Yarmouth Primary school completed £4.5million of investment in a new fit for purpose school providing modern educational facilities for around 210 pupils in the West Wight area.
- Works continued using funding awarded from the Levelling Up Fund to support the first phase of regeneration of the East Cowes waterfront and create a new marine hub for the island including improvements to the Columbine building, renovating the Victorian Barracks building, and improvements to the public realm.
- Successfully awarded trailblazer funding as part of the governments £302million Department for Education and Department for Health & Social Care, Family Hubs and Start for Life Programme.

# Our outlook and future plans

The Budget setting process for the financial year 2023/24 has been one of the most challenging experienced by the Isle of Wight Council. The financial environment changed rapidly through 2022/23 precipitated by the war in Ukraine, the existence of practical full employment in the economy and the strains on international supply chains due to continuing Covid lockdowns. This, coupled with the more local legacy impacts of the Covid pandemic and resulting pressures on the health system and Council Services more generally, has led to a high cost / high demand environment which the Council alone did not have sufficient financial resilience to be able to respond to.

The pace and scale of recent economic events originating in the current year has led the Council to experience estimated unplanned cost pressures of circa £20m, representing over 12% of its overall net Budget and a ten-fold increase in the level of planned savings for 2023/24 (originally £2m).

The Council's costs rose at a pace that without Central Government intervention in the Autumn Statement and the Local Government Finance Settlement would have exhausted all of the Council's financial resilience and leaving the Council exposed to a "Structural Budget Deficit" (i.e. in year underlying spending exceeding in year underlying funding) in 2023/24 that would have required immediate and drastic cuts to services.

The Council received significant additional funding from Central Government in 2023/24 but this alone was not sufficient to meet the expected £20m of cost pressures. As a consequence, the Council also increase Council Tax by the maximum permitted and has been required to make savings of £3.9m.

The budget for 2023/24 has therefore been prepared on the basis that it provides for:

The full financial impact of the extra-ordinary inflation and associated demand related cost pressures experienced over the past year and extending into 2023/24

The ongoing impact of the Covid Pandemic in the current year and its expected ongoing legacy over the next 3 years

£3.9 of savings in order to meet:

- The Council resolution of 23 February 2022 - £2m
- The extra-ordinary Budget Pressures that have not been met through additional Government Funding or Council Tax and that the Council has been unable to mitigate - £1.6m
- The financial impact of the Council's preference to increase the maximum support to the Council's Local Council Tax Support Scheme - £0.3m
- Increased spending in Adult Social Care of £7.6m being greater than the funding provided by the Adult Social Care precept and the additional Social Care Grant from Central Government
- Increased spending in Children's Services of £4.3m

## Our outlook and future plans

The Council's future forecast has been estimated in the context of the uncertainty set out above. For the 3-year period 2024/25 to 2026/27 it is estimated that the Budget Deficit will be £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 5% for 2023/24 and 2024/25, representing 3% for general purposes and 2% for Adult Social Care with increases reducing to 3% per annum in total thereafter. 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, elevated levels of inflation and the level of successful business rate appeals arising from the revaluation in 2023/24. Taking these risks together, the Forecast Deficit has the potential to vary by between +/- £5m which when spread over 3 years would vary the annual savings requirements by +/- £1.67m per annum.

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 agreed in February 2023 so as to retain the necessary financial resilience to be able to respond in all circumstances.

Chris Ward

Section 151 Officer