

## ISLE OF ANGLESEY COUNTY COUNCIL

<b>REPORT TO:</b>	<b>EXECUTIVE COMMITTEE</b>
<b>DATE:</b>	<b>18 SEPTEMBER 2017</b>
<b>SUBJECT:</b>	<b>MEDIUM TERM FINANCIAL PLAN 2018/19 – 2020/21</b>
<b>PORTFOLIO HOLDER(S):</b>	<b>COUNCILLOR J GRIFFITH</b>
<b>HEAD OF SERVICE:</b>	<b>MARC JONES – HEAD OF FUNCTION (RESOURCES)</b>
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<b>LOCAL MEMBERS:</b>	n/a

### A - Recommendation/s and reason/s

The Council is required to put in place a robust system to monitor and control its revenue budget and a key element of that system is a Medium Term Financial Plan. The plan sets out the Council's budget strategy over the next three year period and sets out the assumptions which will be taken forward to the annual budget setting process.

The Executive is requested to note the contents of the plan and to approve the assumptions made.

### B - What other options did you consider and why did you reject them and/or opt for this option?

N/A

### C - Why is this decision for the Executive?

Paragraph 4.3.2.2.1 of the Council's Constitution requires the Executive to publish a pre-budget statement before 30 September each year.

### CH - Is this decision consistent with policy approved by the full Council?

Yes

### D - Is this decision within the budget approved by the Council?

N/A

### DD - Who did you consult?

### What did they say?

	Who did you consult?	What did they say?
1	Chief Executive / Strategic Leadership Team (SLT) (mandatory)	TBC
2	Finance / Section 151 (mandatory)	n/a – this is the Section 151 Officer's report
3	Legal / Monitoring Officer (mandatory)	TBC
4	Human Resources (HR)	
5	Property	
6	Information Communication Technology (ICT)	
7	Scrutiny	
8	Local Members	
9	Any external bodies / other/s	

### E - Risks and any mitigation (if relevant)

1	Economic	
2	Anti-poverty	
3	Crime and Disorder	
4	Environmental	
5	Equalities	
6	Outcome Agreements	
7	Other	

**F - Appendices:**

Appendix 1 - Medium Term Financial Plan  
Appendix 2 - Detailed 3 year estimate  
Appendix 3 - Plan Assumptions

**FF - Background papers (please contact the author of the Report for any further information):**

## MEDIUM TERM FINANCIAL PLAN 2018/19 – 2020/21

## 1. INTRODUCTION

- 1.1 The Medium Term Financial Plan sets out the Council's likely resource requirement for the next three financial years and details how the Council plans to balance the resource requirement with the funding available.
- 1.2 Predicting the future is difficult in any circumstances but, at present, it is very difficult given the uncertainty over the economy, the implications of the referendum decision to leave the European Union and change in the Government's economic policy following the general election in May 2017.
- 1.3 It should also be noted that the U.K. Government's main budget statement has moved from the traditional March date to November and replaces the Autumn Statement. A Spring Statement will then be made in March 2018. The November budget will set out the levels of Government spending, including the budget that the Welsh Government will receive and will be after the date when the Welsh Government publishes its provisional settlement, currently planned for 10 October 2017.
- 1.4 The plan takes account of known changes and makes assumptions of the main factors that impact on the Council's revenue budget (pay costs, pensions, general inflation, Welsh Government funding, demographic and demand pressures). It also takes into account any budget pressures that result from the Council's Corporate Plan for 2017 – 2022.

## 2. THE COUNCIL'S BUDGET STRATEGY TO DATE

- 2.1 The British economy began to decline following the banking crisis in 2008 and the current Government began its programme of financial austerity in 2010. Although this reduced the level of increases in central government funding to Welsh local authorities, funding continued to grow until 2013/14, although the growth was insufficient to meet all cost pressures and represented a real cut in funding.
- 2.2 From 2014/15 to 2016/17 the Council has seen cash reductions in the grant it receives from the Welsh Government, although this was changed in 2017/18 when the Council received a slightly higher settlement in cash terms. This is shown in Table 1 below:-

**Table 1**  
**Change in the Council's Aggregate External Finance 2014/15 – 2017/18**

Year	RSG £'m	NDR £'m	Total AEF £'m	% Change
2013/14	78.74	22.03	100.77	-
2014/15	75.11	22.04	97.15	-3.6%
2015/16	71.70	21.99	93.69	-3.6%
2016/17	70.62	21.31	91.93	-1.9%
2017/18	69.65	23.00	92.65	+0.8%

- 2.3** The figures shown above take account of any changes to the distribution formula, any grants that are brought into the settlement, any changes in responsibilities that can result in funding coming in or going out of the settlement, changes in the taxbase and any general increases or reductions in funding which the Welsh Government apply. However, whatever the reason for the change, this is the cash sum which the Council has received each year to fund the cost of services.
- 2.4** This represents an overall reduction in the AEF of 8.1% between the 2013/14 level and the 2017/18 level.
- 2.5** In order to mitigate the effect of this loss, the Council has increased the Council Tax at a higher rate than inflation over the same period. However, as the proportion of AEF to Council Tax is approximately 3:1, each 1% decrease in AEF requires a 3% increase in Council Tax in order to achieve the same level of funding. The levels of Council Tax have increased as follows since 2013/14:-

**Table 2  
Increase in Council Tax since 2013/14**

Year	Total Council Tax Debit £'m	Band D Equivalent £	% Change
2013/14	28.48	939.15	-
2014/15	29.47	981.41	+4.5%
2015/16	30.96	1,025.57	+4.5%
2016/17	32.11	1,061.46	+3.5%
2017/18*	33.51	1,088.01	+2.5%

\* The 2017/18 Council Tax Debit includes a 25% premium on second homes and long term empty properties. This is equivalent to an additional Council Tax debit of £0.56m

- 2.6** The reduction in AEF and the increase in Council Tax has changed the balance between the amount of funding which is received in Government grant and the amount generated through local taxation. The amount of funding generated via Council Tax in 2016/17 is 26%, compared to 22% in 2013/14. This is shown in Table 3 below:-

**Table 3  
Council Funding since 2013/14**

Year	Total AEF £'m	Total Council Tax Debit £'m	Total Funding £'m	% Council Tax to Total Funding
2013/14	100.77	28.48	129.25	22.0%
2014/15	97.15	29.47	126.62	23.2%
2015/16	93.69	30.96	124.65	24.8%
2016/17	91.93	32.11	124.04	25.9%
2017/18	92.65	33.51	126.16	26.6%

- 2.7** For a number of years prior to 2013/14, Services have been required to implement savings. These, initially, were based on a percentage of the net budget and resulted in a number of unused and underspent budgets being reduced. This was sufficient to achieve the required savings but, as time has moved on, the ability of services to achieve the required level of savings by this method has become more and more difficult. It has now reached a point where any additional savings will require the transfer of services to other providers or stopping the provision of some services.

- 2.8 The level of savings approved by the Executive as part of the annual revenue budget since 2013/14 is shown in Table 4 below:-

**Table 4**  
**Analysis of Savings by Service 2013/14 – 2016/17**

Service	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	Total £'000
Schools	0	0	0	988	876	1,864
Education & Culture	356	811	670	320	224	2,381
Adult Services	500	1,261	407	335	559	3,062
Children's Services	312	352	184	143	0	991
Leisure, Maritime & Economic Development	175	414	394	147	81	1,211
Housing	66	117	137	74	41	435
Highways, Waste & Property	1,014	2,216	1,492	730	339	5,791
Regulation	200	308	80	111	106	805
Council Business	70	152	31	56	18	327
Resources	50	212	104	72	121	559
Transformation	49	183	226	84	79	621
Corporate Budgets	70	237	600	400	0	1,307
<b>Total</b>	<b>2,862</b>	<b>6,263</b>	<b>4,325</b>	<b>3,460</b>	<b>2,444</b>	<b>19,354</b>

- 2.9 In making these savings it has allowed the Council to release some funding to fund pressures within services in addition to the normal inflationary pressures. For example in the 2017/18 budget £1.415m was included in service budgets to fund budget pressures, to utilise some of the additional council tax generated through the premium and to transfer additional funding from the Welsh Government to services. The overall effect of implementing the £19.3m of savings and funding inflation and other budget pressures is a net reduction in the Council Revenue budget of £3.09m between 2013/14 and 2017/18 (a 2.4% cash reduction).

### 3. UK ECONOMIC OUTLOOK

- 3.1 The UK Government changed their economic policy prior to the election and the intention is to have a balanced budget by 2025, that the structural deficit is less than 2% of GDP by 2020/21 and that net debt as a percentage of GDP starts to fall by 2020/21. Current budget plans are designed to reduce the deficit to 0.9% of GDP by 2020/21 and this gives the Government headroom of £23bn but if actual growth is lower than forecast, then this headroom will quickly reduce.
- 3.2 Achieving these targets will be difficult and much is dependent on future growth. There is a great deal of uncertainty on how the economy will perform when the UK leaves the European Union in March 2019. The current estimate for 2017/18 is that net borrowing will be £58.3bn and getting from that position to a balanced budget by 2025 will be difficult given the significant pressures that exist e.g. ageing population, increasing costs of the National Health Service, increasing costs of Adult Social Care, maintaining the triple lock guarantee for the state pension etc.
- 3.3 The level of uncertainty has also increased following the May 2017 general election, with the Government under increasing pressure to move away from continued austerity and to invest more in public services. The issue of the 1% cap on public sector pay has also been discussed at length recently and whether the cap should be removed.

**3.4** Inflation currently stands at 2.6% (CPI – July 2017), which is higher than the Government's target of 2%. Inflation increased during 2016/17 due to the weakening of sterling following the EU referendum. The effect of the drop in the value of sterling will be reduced during the remainder of 2017 and into 2018 and is forecast to fall back to around 2% by the beginning of 2019. As a result, there is no immediate pressure to raise interest rates as they are expected to remain low for the foreseeable future but may begin to rise slightly during 2018.

## **4 WELSH GOVERNMENT BUDGET**

**4.1** At this point, it is unclear what the settlement for Wales will be in 2018/19 and beyond. The UK Government is planning a £3.5bn reduction in public spending in 2019/20 which would equate to a £175m cut in the Welsh Government budget, but additional funding for health, schools and adult social care announced in the March 2017 budget will increase the Welsh Government's budget by £150m.

**4.2** The UK Government also announced changes to national insurance and welfare benefits which were also designed to reduce the overall deficit. Some of these plans have not been implemented and it is not clear as to how the Government will make up the shortfall i.e. will other budgets, including the Welsh Government's budget, be cut further.

**4.3** The Welsh Government's budget for 2017/18 was £14.6bn with around £7bn (48%) being allocated to Health and £4.3bn (30%) being allocated to Local Government. Since 2009/10, funding on the Health Service in Wales has increased by 16%, whilst funding for local government has fallen by 18%.

**4.4** Again, what is not clear is how the Welsh Government will allocate the budget between Health, Local Government and the remainder. As shown above, more investment has gone into health in Wales leaving local government to shoulder a larger proportion of the budget cuts. If the Welsh Government continue with this strategy, it will result in further significant cuts in funding for local government, with the suggested worst case scenario being a cut of 3.3% in 2018/19 followed by a further cut of 2.6% in 2019/20. If this was the case, and the Welsh Government funding fell by these levels, Anglesey's AEF would fall from the 2017/18 figure of £92.65m to £89.59m in 2018/19 and £87.26m in 2019/20. An overall reduction of £5.39m over two years.

## **5 NATIONAL AND LOCAL BUDGET PRESSURES**

**5.1** Local Government generally is facing a number of budget pressures and, in addition, Anglesey will also face its own unique budget pressures and these have to be factored into the Medium Term Financial Plan.

### **i. National Living Wage**

The UK Government intends to raise the National Living Wage to £9 per hour by April 2020, with levels rising from the current £7.50 to £8.05 in 2018, £8.50 in 2019 and £9 in 2020. Currently the lowest pay point paid by the Council (Grade 1) is £8.09 and, if this increased by 1% each year, it would only reach £8.56 by 2020. Therefore, it is clear that the lowest paid staff will receive a pay award in excess of 1% over the next three years. Although the Council doesn't have significant numbers of staff at this lowest grade, raising the pay point to £9 per hour will result in the grade 1 pay catching the next grade up and will reduce the differential between grade 1 and 2 to grades 3 and 4. Clearly, this will create difficulties for local authorities in trying to fund the National Living Wage whilst still ensuring that differentials are maintained between grade 1 and the higher grades.

**ii. Public Sector Pay Award**

Public sector pay awards have been capped at 1% since 2011 and when inflation was low this was, in the main, accepted by the employees and, to a lesser extent the Unions. However as inflation has increased to over 2.5%, a 1% pay award results in a real terms reduction in the level of wages of public sector staff and there is increasing pressure on the Government to remove the cap. The joint pay claim by the Unions (NJC staff) is for a 5% pay award in 2018. The Teachers pay award from September 2017 has been set at between 1% and 2% but it is likely that the teaching unions will be pressing for a higher pay award for September 2018.

**iii. Adult Social Care**

As the population lives longer, the demand for adult social care services increases. It is estimated that by 2035 the number of people living in Wales over 65 will increase by 35% and the numbers over 85 will increase by 113%. A study undertaken for Wales Public Services found that demand pressures equates to a growth of 2.9% each year. In addition to the increase in growth, the introduction of the National Living Wage has increased costs in the social care sector. In the 2017/18 settlement, an additional £30m was allocated to local authorities to help with these costs and this additional funding should stay in the 2018/19 funding. However this is unlikely to meet the additional costs which the Authority will face.

**iv. Looked After Children**

The demand on this service has increased nationally and locally with the Council now having to place a significantly larger number of children. It is estimated that in 2017/18 the Looked After Children budget will overspend by around £2m (60% overspend). This is a pressure which a number of other local authorities are facing at the present time but it should be noted that a review of the processes within the Children's Team has also increased the number of children which are now deemed as "Looked After". The increase in children also has a knock on effect on Education budgets, where an overspend of £350k was seen in 2016/17. The Council did respond by increasing this budget in 2017/18 by £225k but this appears to be insufficient to meet the increased demand and the budget is forecast to overspend by £140k in 2017/18.

**v. 21<sup>st</sup> Century School Modernisation**

The cost of building new schools under the modernisation programme is funded 50% by Welsh Government grant and supported borrowing and 50% by means of unsupported borrowing. The unsupported borrowing element impacts on the revenue budget in the form of the minimum revenue provision (MRP) and interest charges. The 2 new schools built to date generate revenue savings which can be used to fund the MRP and interest charges. However, as the Council moves forward with the remainder of the Band A and the Band B projects, initial indications are that the potential savings will not meet the full cost of the MRP and interest charges. This, in turn, creates a revenue budget pressure.

**vi. Highway Maintenance**

As part of the Council's requirement to achieve revenue budget savings, the Highway Maintenance revenue budget has been reduced (£1.124m since 2013/14). The impact of the reduction in the revenue budget has been lessened by using the capital budget (Local Government Borrowing Initiative or Supported / Unsupported Borrowing) to fund capital works to the Highways infrastructure (£9.06m since 2013/14). In 2017/18, the revenue budget was reduced by £72k and £761k of the capital budget (£470k supported borrowing and £291k unsupported borrowing) was allocated to highway maintenance. The Head of Service (Highways, Waste & Property) estimates that an additional £730k in revenue funding is required to meet the obligations of the current maintenance contracts and to avoid major highway safety problems. In addition, a further £0.5m would be required to maintain the highways at their current condition. It would be possible to continue to use capital budgets to fund the required work. However, the use of the capital grant or supported borrowing reduces the capital funding available for other projects and the use of unsupported borrowing incurs additional MRP and interest costs for the next 20 years.

**vii. Corporate Plan**

The Council is currently in the process of drawing up its new Corporate Plan for 2017 to 2022. At this draft stage it is difficult to determine whether the planned projects will result in additional cost pressures and what those additional costs will be. An initial review has identified some funding requirements for the capital programme and also the need to secure external grant funding or to utilise existing ongoing grant funding. However, the review did not identify any significant cost pressures on the revenue budget which need to be incorporated into the medium term financial plan at this point. As the work to implement the corporate plan moves forward over the next 5 years, funding requirements may become clearer and, as a result, the medium term financial plan will require the position to be reviewed each year.

**viii. Reduction in Specific Grants**

The Council continues to receive a number of revenue grants to fund services, with 5 main grants being received (Supporting People grant, Bus Services Support grant, Education Improvement grant, Pupil Deprivation grant, Post 16 Education grant, Environment Single Revenue grant). As with the general funding, these grants are reducing and, when this happens, it is difficult for the Council to reduce the services initiated when the grant commenced. As a result, the Council has to make up the difference in order for the service to continue to be provided at the same level.

**ix. Miscellaneous Budget Pressures**

Each year, the Council's budget includes a number of adjustments (committed changes) which reflect decisions made by the Executive during the previous year, increases in costs due to contractual commitments or retendering of contracts, incremental drift. For example, the Executive approved to fund the cost of pay protection for teachers' allowances from the central Council budget. During 2016/17, the Council retendered grounds maintenance and highways maintenance contracts and the new contract price is higher than the previous price and, therefore, this is allowed for in the plan.



## **6 INFLATION**

**6.1** Inflation is the rate at which the prices for goods and services are expected to rise. The two main measures of inflation are the Consumer Price Index (CPI) and the Retail Price Index (RPI). Although there is a link between these measures of inflation and the actual inflation the Council faces, e.g. they are built into some of the Council's main contracts as the method to increase the annual prices, there are also other significant areas of expenditure which experience higher levels of inflation.

**6.2** The budget process, therefore, examines the estimated inflation over a number of different areas of expenditure and these inflation factors are built into the annual budget. It should be noted that the Welsh Government settlement is a cash figure which is not indexed linked in any way from one year to the next.

### **6.3 Types of Inflation**

#### **6.3.1 Pay Inflation**

Council staff's pay is mainly governed by two national pay agreements covering local government staff and teachers. The Government has restricted pay awards to 1% over the last 3 years and, although there is pressure to increase the pay award (see paragraph 5.1 ii above), it is not anticipated that the pay award will exceed 1% over the life of this plan without it being funded by central government. The impact of the increases in the national living wage must also be factored into the pay inflation (see paragraph 5.1 i above). The plan, therefore, allows for an increase of 1.5% for the first two years of the plan, rising to 2% in the final year of the plan.

#### **6.3.2 Prices**

There are currently two main recognised measures of general price inflation, Consumer Prices Index (CPI) and Retail Prices Index (RPI). Although both measure price inflation, they are calculated by different methods and CPI is now recognised as the more accurate and reliable method. CPI is lower than RPI by approximately 1%. In times when inflation is high, it can vary significantly between different commodities but, when it is low, the differences are small and this general indicator provides a reasonable assumption for inflation. For the purposes of this plan, CPI has been used as the general assumption.

#### **6.3.3 Energy**

The inflation relating to energy costs (electricity, gas and oil) has been more volatile in recent years with prices increasing rapidly followed by a fall in prices, even when the CPI and RPI continue to rise. Given the level of expenditure on energy, it is reasonable to include a separate assumption for energy. As oil is priced in dollars, the recent fall in the value of sterling has also increased energy costs. Energy usage is also a factor and is linked to average winter temperatures. In colder years, as usage increases costs will also increase. For the purposes of the plan, costs are estimated to increase by RPI + 1% over the life of the plan.

#### **6.3.4 Contract Inflation**

The Council have a number of significant service contracts (School Meals, Highway Maintenance, Refuse Collection, School Transport etc.) where the inflation adjustment is set out in the contract terms and conditions and can vary from the general prices inflation. A separate assumption has been allowed for each of the main service contracts based on the definition in the contract.

## **7. CHANGES IN DEMAND**

**7.1** In addition to price increases, costs may change as the demand for services change. This can range from changes in pupil numbers, to demand for elderly care services, a change in the number of children coming into the statutory care process, homelessness cases, amount of waste sent to landfill etc.

**7.2** The assumptions relating to changes in demand are based on:-

- (i)** available data e.g. future pupil numbers, projected refuse disposal tonnages;
- (ii)** planned service changes – introduction of an Edge of Care team within Children's Services;
- (iii)** current trends – children's services and out county placements where the demand for the service has increased over the last 12 to 24 months and homelessness cases where the demand for services has levelled out over the last two years.

## **8 INCOME**

**8.1** The Council's current income budget (excluding RSG, NDR and Council Tax) currently amounts to £32.3m, which is made up of grants and reimbursements from public bodies £19.3m, fees and charges set by statute or regulated by the Government or a long term rental agreement £7.2m and fees and charges where the Council has the discretion to set the fee or charge £5.6m.

**8.2** It has been the Council's policy over recent years (prior to 2017/18) to increase the discretionary fees and charges by 5% each year. It is becoming increasingly more difficult to continue with this policy with inflation much lower than 5% and, in particular, for those services where the Council is competing with the private sector e.g. Leisure. In 2017/18, non-statutory fees were increased by 3% and, from 2018/19, the assumption is that non-statutory fees will be increased at 3% per annum or CPI, whichever is the higher.

## **9 CONTINGENCIES AND LEVIES**

**9.1** The 2017/18 budget contains contingency budgets totalling slightly in excess of £1.4m which cover a number of areas, including a budget to meet future redundancy costs, budgets to fund specific posts and projects in HR, Procurement and ICT, budgets to cover uncertainties in respect of domiciliary care costs and a general contingency. Given that the majority of the contingencies are for specific projects, it is possible to determine when these costs fall out of the budget.

**9.2** The North Wales Fire and Rescue Authority set a levy which is included in the Council's Revenue budget. It is for the Fire and Rescue Authority to determine the increase in the levy each year. The levy has fallen slightly every year since 2011/12 and, for 2016/17, was approximately the same level as it was in 2009/10. In 2017/18, the Fire & Rescue Authority increased the levy by 4% with a further 1.3% indicated for 2018/19. An inflationary increase is assumed for 2019/20 and 2020/21.

## 10 PROJECTED STANDSTILL BUDGET FOR 2018/19 – 2020/21

- 10.1 Taking into account all the known budget pressures and the inflationary and other assumptions, it is possible to determine a standstill budget for the period 2018/19 to 2020/21. The standstill budget being the revised costs of continuing to provide services to the same level, delivered in the same way as they are delivered in 2017/18. The estimated standstill budget for the next three year period is shown in Table 5 below:-

**Table 5**  
**Projected Standstill Budget 2018/19 to 2020/21**

	2018/19 £'m	2019/20 £'m	2020/21 £'m
<b>Previous Year Final Budget</b>	<b>126.16</b>	<b>129.82</b>	<b>132.46</b>
Funded from Reserves in Previous Year	0.49	0.00	0.00
One Off Costs and Contingencies falling out of the budget	(0.65)	(0.34)	0.00
New Budget Pressures	0.73	0.00	(0.07)
Incremental Drift and Pay Adjustments	0.10	0.10	0.10
Pay Inflation	0.99	1.18	1.64
Main Council Contracts – Inflation and Volume Changes	0.92	0.89	0.86
Changes in Demand Led Services	0.62	0.40	0.40
Non Pay Inflation	0.89	0.87	0.84
Income Increases	(0.86)	(0.83)	(0.79)
Capital Financing Costs	0.43	0.37	0.01
<b>Estimated Standstill Budget</b>	<b>129.82</b>	<b>132.46</b>	<b>135.45</b>

- 10.2 The estimated standstill budget represents a cash increase of 7.3% over the 3 year period.
- 10.3 More detail on the standstill budget and the assumptions that support the plan are attached as Appendix 2 and 3.

## 11 AGGREGATE EXTERNAL FINANCE AND COUNCIL TAX

- 11.1 The estimated standstill budget is funded from the level of aggregate external finance received from the Welsh Government (Revenue Support Grant and NDR Pool Funding) and from the Council Tax raised locally.
- 11.2 As stated in paragraph 4 above, the situation regarding the local government settlement for 2018/19 is unclear and the position for 2019/20 and 2020/21 is even more difficult to predict.
- 11.3 The Welsh Local Government Association (WLGA) undertook some modelling work on the likely impact on the Local Government settlement over the next two years based on the level of protection the Welsh Government will give to the Health budget. The result of the modelling exercise is shown in Table 6 below:-

**Table 6**  
**Possible Changes in AEF – 2018/19 to 2019/20**

	<b>Weak Protection for Health Budget</b>	<b>Moderate Protection for Health Budget</b>	<b>Strong Protection for Health Budget</b>
<b>2018/19</b>	- 2.0 %	- 2.7 %	- 3.4 %
<b>2019/20</b>	- 0.7 %	- 1.4 %	- 2.5 %
<b>2020/21</b>	No protection percentages provided		

**11.4** For the purposes of the Medium Term Financial Plan, it has been assumed that the AEF will be reduced by 2.0% in 2018/19 followed by a reduction of 1.4% and 0.5% in 2019/20 and 2020/21 respectively. This equates to a total reduction in AEF of £3.6m over the 3 year period. If the most pessimistic of assumptions was used the cut in AEF would increase to £6.2m over the same 3 years period

**11.5** Over the past 3 years, the level of increase in Council Tax has ranged between 2.5% and 4.5%, which is higher than inflation but has been necessary to partly make up for the reduction in AEF. Although this is a decision for Members to take, in light of the potential reductions in AEF it will be necessary to continue with the policy of above inflation increases in Council Tax. For the purposes of the plan, an assumed increase of 4% has been allowed for in each of the 3 years.

**11.6** Based on these assumptions, the estimated total funding would be as shown in Table 7 below:-

**Table 7**  
**Estimated Council Funding – 2018/19 to 2020/210**

	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>
AEF Brought Fwd	92.652	90.799	89.528
Council Tax Brought Fwd	33.505	34.845	36.238
<b>Total Funding Brought Fwd</b>	<b>126.157</b>	<b>125.644</b>	<b>125.766</b>
In year change in AEF	(1.853)	(1.271)	(0.448)
In Year change in Council Tax	1.340	1.393	1.450
<b>Total Funding Carried Fwd</b>	<b>125.644</b>	<b>125.766</b>	<b>126.768</b>

## **12 BRIDGING THE FUNDING GAP**

**12.1** The funding gap is the difference between the estimated standstill budget (Table 6) and the estimated funding available (Table 7). This is summarised in Table 8 below:-

**Table 8**  
**Estimated Funding Gap**

	<b>2018/19 £m</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>
Estimated Standstill Budget	129.824	132.463	135.452
Savings Brought Forward	0.000	(4.180)	(6.696)
<b>Revised Standstill Budget</b>	<b>129.824</b>	<b>128.282</b>	<b>128.756</b>
Estimated Funding	125.644	127.766	126.768
<b>Annual Savings Requirement</b>	<b>4.180</b>	<b>2.516</b>	<b>1.987</b>
<b>% Savings Requirement</b>	<b>3.2%</b>	<b>2.0%</b>	<b>1.54%</b>

Note – The savings brought forward figure is a cumulative figure of the previous year(s) annual savings requirement.

**12.2** In reality, there are a number of budgets included in the standstill budgets which cannot be reduced or are very difficult to reduce, these include :-

Fire Authority Levy - £3.30m in 2017/18;  
Capital Financing Costs - £8.30m in 2017/18;  
Council Tax Reduction Scheme - £5.35m in 2017/18;  
Historic Pension Costs - £1.13m in 2017/18;  
General and Specific Contingencies - £1.38m in 2017/18.

It will, therefore, be necessary to find the required savings of £8.68m over 3 years from service budgets, totalling £106.7m (2017/18 budget). This equates to savings of 8.1% over 3 years.

**12.3** The Council's efficiency strategy in previous years has been to reduce service budgets by requesting services to review existing budgets and to reduce the overall net budget by:-

- Deleting unused budget headings;
- Reducing staffing costs through restructuring and voluntary redundancies;
- Increasing fees and charges in excess of the rate of inflation;
- Identifying new sources of income;
- Reducing administration costs through investment in information technology;
- Reducing costs through better procurement of goods and services;
- Stopping grants to the voluntary / third sector;
- Reducing the sums invested in the maintenance of assets;
- Rationalising Office space, thereby reducing office accommodation costs.

**12.4** The strategy has been successful and the Council has not only been able to set a balanced budget each year without having to rely on the use of general balances, it has also been able to deliver the proposed savings which is evidenced by the fact that the Council has invariably underspent its revenue budget each year. This has also been achieved whilst still protecting the budgets for Schools and Social Services.

**12.5** However, as we move into the next three years, the scope to generate the required level of savings by these methods alone is much reduced and the Council is now changing its strategy in order to continue to deliver the required savings. The methods under consideration include:-

- Using the Council's general balances to allow for further investment in business processes and information technology. The investment will generate revenue savings in the future;
- Seeking to transfer the provision of some services away from the Council, to Town & Community Councils, the third sector, voluntary community groups or private individuals;
- Examining alternative methods to provide the service, including creating other bodies controlled by the Council to deliver services – trusts, local authority trading companies;
- Stopping the provision of some non-statutory services.

**12.6** A number of the smaller corporate services have now been reduced to a point where funding budget reductions are not possible as the services will no longer be able to deliver the minimum level of service required. As a result, services which have received protection from budget reductions in previous years will now be expected to contribute towards the savings targets.

**12.7** The revenue budget of each service has been reviewed by Members and Senior Officers and this has resulted in the identification of approximately £1.4m further savings in 2018/19 and £2.3m in the subsequent two years. A review of the Council's MRP Policy is also to be undertaken and this may reduce costs in the short to medium term by £1m per annum. This gives a total of potential savings identified to date of approximately £4.7m, which is £4m below the estimated savings requirement.

### **13 CONCLUSIONS**

**13.1** The future funding of Local Government in Wales is very uncertain at the present time and accurately forecasting future funding levels is difficult.

**13.2** To achieve the future required savings, the Council will be required to take more difficult decisions, including considering stopping providing non statutory services, closing facilities (schools, residential homes, libraries) and continue to increase the contribution that the residents of Anglesey have to make to the services they receive, through higher fees and charges and higher Council Tax bills. These decisions may not be fully supported by Members, and will be unpopular with the taxpayers of Anglesey, but they need to be taken in order to ensure the future financial viability of the Council.

Final MTFP to Executive 18 September 2017					APPENDIX 2
		2017/18	2018/19	2019/20	2020/21
		£'000	£'000	£'000	£'000
<b>Delegated Schools Budgets</b>					
Teachers Pay		20,585,780	20,791,638	21,221,512	21,645,943
Non Teaching Pay		3,440,555	3,002,163	3,047,196	3,108,140
National Insurance		2,595,610	2,621,566	2,673,997	2,740,847
Teachers Pensions		3,311,840	3,344,958	3,411,858	3,480,095
Non Teaching Pensions		586,810	595,612	604,546	619,660
Cleaning		696,130	706,572	755,171	770,274
Energy		1,181,200	1,235,535	1,289,899	1,344,074
Non Domestic Rates		780,760	808,867	828,280	846,502
Other non staff related expenditure		4,610,510	4,730,383	4,843,912	4,950,479
Pupil Number Adjustment		-	62,300	113,700	190,000
Funded by Education Reserves		- 490,000	-	-	-
<b>Total Delegated Schools Budgets</b>		<b>37,299,195</b>	<b>37,899,596</b>	<b>38,790,071</b>	<b>39,696,014</b>
<b>Non School Staffing Costs</b>					
Teachers Pay		1,114,360	1,125,504	1,142,386	1,165,234
Non Teaching Pay		32,542,900	33,102,544	33,761,582	34,508,313
National Insurance		2,947,470	3,001,682	3,071,716	3,158,509
Teachers Pensions		165,060	166,711	170,045	173,446
Superannuation Pension Contributions		6,423,580	6,538,434	6,655,010	6,839,885
Car Allowances		613,660	613,660	613,660	644,343
Historic Pension Costs		1,127,460	1,144,372	1,161,537	1,184,768
Other Staff Costs		727,750	746,672	764,592	781,413
Apprenticeship Levy		290,000	294,350	298,765	304,741
<b>Total Staffing Costs</b>		<b>45,952,240</b>	<b>46,733,927</b>	<b>47,639,293</b>	<b>48,760,651</b>
<b>One Off Costs</b>					
County Council Elections		150,000	-	-	-
Cost of Change Contingency		92,000	-	-	-
Nursing Domiciliary Care		330,000	330,000	330,000	330,000
Haulfre (2018/19 Only)		95,000	95,000	-	-
Edge of Care Team		240,000	240,000	-	-
<b>Total One Off Costs</b>		<b>907,000</b>	<b>665,000</b>	<b>330,000</b>	<b>330,000</b>
<b>Main Council Contracts</b>					
Refuse Collection		3,292,750	3,411,289	3,527,273	3,640,146
Refuse Disposal		674,700	692,242	701,934	710,357
Landfill Tax		1,411,170	1,443,627	1,463,838	1,481,404
Highway Maintenance		4,192,320	4,343,244	4,580,872	4,727,460
School Meals		2,032,070	2,105,225	2,176,802	2,246,460
School Transport		2,361,810	2,446,835	2,530,028	2,610,988
Public Service Bus Contracts		1,874,540	1,942,023	2,008,052	2,072,310
Education Joint Services		1,270,490	1,283,195	1,302,443	1,328,492
Residential Placements		7,425,560	7,692,880	7,954,438	8,208,980
Homecare Contracts		3,566,130	3,658,849	3,746,662	3,829,088
<b>Total Main Council Contracts Costs</b>		<b>28,101,540</b>	<b>29,019,409</b>	<b>29,992,341</b>	<b>30,855,684</b>
<b>Other Demand Led Services</b>					
Children's Placements		3,579,050	3,851,058	3,943,483	3,990,805
Out of County School Placements		1,129,920	1,215,794	1,244,973	1,259,913
Supported Living		1,312,040	1,346,153	1,378,461	1,408,787
Homelessness		262,120	268,935	275,390	281,448
<b>Total Demand Led Services</b>		<b>6,283,130</b>	<b>6,681,940</b>	<b>6,842,306</b>	<b>6,940,953</b>
<b>Other Council Expenditure</b>					
Non Domestic Rates		990,870	1,016,633	1,066,032	1,089,485
Energy		1,061,130	1,109,942	1,158,779	1,207,448
Premises Costs Non Schools		2,921,840	2,997,808	3,069,755	3,137,290
Transport Costs		280,390	287,680	294,584	301,065
Supplies and Services		17,384,219	17,836,209	18,284,278	18,686,532
Members Allowances		676,200	686,343	696,638	710,571
Fire Service Levy		3,330,579	3,373,877	3,454,850	3,530,856
Other Levies		4,154	4,154	4,154	4,154
Council Tax Reduction Scheme		5,350,600	5,511,118	5,731,563	5,960,825
HRA Recharge		- 621,830	- 637,998	- 653,310	- 667,682
Contingencies		183,635	183,635	483,635	483,635
NDR Discretionary Rate Relief		60,000	60,000	60,000	60,000
Capital Financing Costs - MRP		3,881,332	3,851,721	3,929,711	3,945,059
Capital Financing Costs - Interest		4,418,000	4,881,851	5,169,428	5,165,114
<b>Total Other Council Expenditure</b>		<b>39,921,119</b>	<b>41,162,973</b>	<b>42,750,097</b>	<b>43,614,352</b>
<b>Total Potential Budget Pressures</b>		<b>-</b>	<b>831,500</b>	<b>100,000</b>	<b>31,167</b>
<b>TOTAL GROSS EXPENDITURE</b>		<b>158,464,224</b>	<b>162,994,345</b>	<b>166,444,108</b>	<b>170,228,821</b>

Final MTFP to Executive 18 September 2017					APPENDIX 2
		2017/18	2018/19	2019/20	2020/21
		£'000	£'000	£'000	£'000
<b>Income</b>					
Grants / Public Bodies Reimbursements	-	19,374,624	19,878,364	20,335,445	20,782,825
Statutory Income	-	7,262,150	7,450,966	7,629,789	7,797,644
Non Statutory Income	-	5,670,450	5,840,564	6,015,780	6,196,254
<b>Total Income</b>	-	<b>32,307,224</b>	<b>33,169,894</b>	<b>33,981,014</b>	<b>34,776,723</b>
<b>TOTAL NET EXPENDITURE</b>		<b>126,157,000</b>	<b>129,824,451</b>	<b>132,463,094</b>	<b>135,452,098</b>
Savings Brought Forward from Previous Year		-	-	4,180,291	6,696,311
<b>REVISED TOTAL NET EXPENDITURE</b>		<b>126,157,000</b>	<b>129,824,451</b>	<b>128,282,803</b>	<b>128,755,786</b>
<b>Funded By:</b>					
Revenue Support Grant	-	69,650,000	68,257,000	67,301,402	66,964,895
Non Domestic Rates	-	23,002,000	22,541,960	22,226,373	22,115,241
Council Tax	-	33,505,000	34,845,200	36,239,008	37,688,568
<b>TOTAL FUNDING</b>	-	<b>126,157,000</b>	<b>125,644,160</b>	<b>125,766,783</b>	<b>126,768,704</b>
<b>Savings Required</b>		-	<b>4,180,291</b>	<b>2,516,020</b>	<b>1,987,082</b>



**APPENDIX 3**

	Final Assumptions		
	2018/19	2019/20	2020/21
Teachers Pay Award	1.0%	1.5%	2.0%
Teachers Pension	0.0%	0.5%	0.0%
NI Rates	0.0%	0.5%	0.5%
Non Teaching Pay Award	1.5%	1.5%	2.0%
Non Teaching Pension	0.0%	0.0%	0.5%
Staff Turnover Adjustment	0.0%	0.0%	0.0%
Car Allowance Inflation	0.0%	0.0%	5.0%
CPI	2.6%	2.4%	2.2%
RPI	3.6%	3.4%	3.2%
Energy Inflation	4.6%	4.4%	4.2%
Non Statutory Income	3.0%	3.0%	3.0%
Children's Placement Caseload	5.0%	0.0%	-1.0%
Out County School Placements	5.0%	0.0%	-1.0%
Homelessness Caseload	0.0%	0.0%	0.0%
Refuse Disposal Tonnage	-1.0%	-2.0%	-2.0%
CTRS Caseload	-1.0%	0.0%	0.0%
Interest Rates Increase	0.5%	0.5%	0.5%
Fire Levy	1.3%	2.4%	2.2%
Other Levies	0.0%	0.0%	0.0%
AEF Projections	-2.0%	-1.4%	-0.5%
Council Tax Increase	4.0%	4.0%	4.0%
Refuse Collection	3.6%	3.4%	3.2%
Refuse Disposal	3.6%	3.4%	3.2%
Landfill Tax	3.3%	3.4%	3.2%
Highway Maintenance	3.6%	3.4%	3.2%
School Meals	3.6%	3.4%	3.2%
School Transport	3.6%	3.4%	3.2%
Public Service Bus Contracts	3.6%	3.4%	3.2%