

## ISLE OF ANGLESEY COUNTY COUNCIL

<b>REPORT TO:</b>	<b>EXECUTIVE COMMITTEE</b>
<b>DATE:</b>	<b>17 SEPTEMBER 2018</b>
<b>SUBJECT:</b>	<b>MEDIUM TERM FINANCIAL PLAN 2019/20 – 2021/22</b>
<b>PORTFOLIO HOLDER(S):</b>	<b>COUNCILLOR R WILLIAMS</b>
<b>HEAD OF SERVICE:</b>	<b>MARC JONES – HEAD OF FUNCTION (RESOURCES) / SECTION 151 OFFICER</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, to approve the assumptions made and to consider how to bridge the funding gap identified in the report.

### 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	<b>Chief Executive / Strategic Leadership Team (SLT)</b> (mandatory)	The final draft of the report was discussed and agreed at the SLT which was attended by the Chief Executive
2	<b>Finance / Section 151</b> (mandatory)	n/a – this is the Section 151 Officer's report
3	<b>Legal / Monitoring Officer</b> (mandatory)	The final draft of the report was discussed and agreed at the SLT which was attended by the Monitoring Officer
4	<b>Human Resources (HR)</b>	
5	<b>Property</b>	
6	<b>Information Communication Technology (ICT)</b>	
7	<b>Scrutiny</b>	
8	<b>Local Members</b>	
9	<b>Any external bodies / other/s</b>	

<b>E - Risks and any mitigation (if relevant)</b>		
<b>1</b>	<b>Economic</b>	
<b>2</b>	<b>Anti-poverty</b>	
<b>3</b>	<b>Crime and Disorder</b>	
<b>4</b>	<b>Environmental</b>	
<b>5</b>	<b>Equalities</b>	
<b>6</b>	<b>Outcome Agreements</b>	
<b>7</b>	<b>Other</b>	

<b>F - Appendices:</b>
<p>Appendix 1 - Medium Term Financial Plan  Appendix 2 - Detailed 3 year estimate  Appendix 3 - Plan Assumptions</p>
<b>FF - Background papers (please contact the author of the Report for any further information):</b>

## MEDIUM TERM FINANCIAL PLAN 2019/20 – 2021/22

## 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 the impact of the recent relaxation by the UK Government on public spending and, in particular, spending on health and adult social care. This additional funding will result in increases in the funding allocated to the Welsh Government but what impact this will have on the funding for Welsh local government is not known at this point.
- 1.3 Following the change in 2017, the UK budget will be announced by the Chancellor in November 2018. In 2017, the Welsh Government announced the provisional local government settlement in October, prior to the UK budget, and it is expected that this timetable will again be followed in 2018.
- 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 CURRENT FINANCIAL POSITION

- 2.1 In February 2018, the Council set the following budget :-

**Table 1**  
**2018/19 Revenue Budget**

	£'m
<b>2017/18 Final Net Revenue Budget</b>	<b>126.157</b>
Contractual and Other Committed Changes	0.877
Pay and Price Inflation	3.108
Transfer of Grants and New Responsibilities into the Settlement	2.618
Budget Pressures	0.707
Budget Savings	(2.522)
<b>2018/19 Final Net Revenue Budget</b>	<b>130.945</b>
<b>Funded By</b>	
Aggregate External Finance	95.812
Council Tax (including Premium)	35.133
<b>Total Funding 2018/19</b>	<b>130.945</b>

- 2.2 The aggregate external finance increased by 0.65% and the Council Tax increased by 4.8%.

- 2.3** In 2017/18, the net revenue budget was overspent by £1.704m, with the majority of the overspending relating to Looked After Children, School Transport, Out of County Education fees and Locum Legal staff. The audit of the final accounts has identified an additional £600k of income, which was not accounted for in the draft accounts and this has improved the overall position for 2017/18.
- 2.4** Although additional funding for Children's Services was included in the 2018/19 budget and action is being taken to try and reduce costs in both Children's Services and Education, these budget pressures continue and the forecast at the end of quarter 1 of 2018/19 is that the revenue budget will overspend again by £1.7m in 2018/19. Although this forecast is likely to change during the financial year, there is an underlying shortfall in the revenue budget which needs to be addressed in 2019/20.
- 2.5** The opening balance of general reserves as at 1 April 2018 is £6.952m. Decisions taken by the Executive has released £0.496m of these balances in 2018/19 and, if the forecasted overspend for 2018/19 is correct, the general reserves of the Council will fall by a further £1.7m during the year to give an estimated balance of £4.75m at 31 March 2019. This figure is below the minimum value of £6.5m (5% of the Council's 2018/19 net revenue budget) which was approved by the Executive in February 2018. This figure will be revised as part of the 2019/20 budget setting process but the expectation is that the actual level of general reserves will be below the recommended minimum value.
- 2.6** It is possible for the Council to operate with a balance of reserves below the recommended value, but the longer this situation continues, the greater the risk is to the Council that it will not be in a position to fund any unexpected expenditure or future overspending should they arise. The reduction in the level of general reserves over the past two financial years also limits the Council's ability to use reserves as a source of short term funding to balance the budget. It will be necessary in future years to budget for a surplus in order that the level of the general reserves increase back to the recommended value over time. This will be a further financial pressure for the Council.
- 2.7** Earmarked reserves, which are maintained by the Council to fund one off committed projects, to fund anticipated future costs (e.g. uninsured losses) and unutilised grant funding stood at £11.9m at 31 March 2018, a fall of £1.45m during the year. Although it is possible to transfer some of these reserves back to the general balances e.g. for committed projects which are not progressing, the scope is limited and will not increase the level of general balances significantly.
- 2.8** School balances continue to be one of the highest in Wales but they did fall in 2017/18 by £220k to £1.87m. As the pressure on school budgets increases, a number of schools are planning to utilise their reserves in 2018/19 to try and maintain staffing levels. It is, therefore, expected that the balances will fall again during 2018/19.
- 2.9** The 2018/19 revenue budget included a further round of savings amounting to £2.522m, this takes the total value of savings identified by the Council since 2013/14 to £21.88m. Comparing the amount of savings each service has contributed is difficult as a number of other factors change the budgets for each service over time, these include: the transfer of service elements between 2 main services, grants and new responsibilities which transfer into or out of a service, the impact of job evaluation and any additional funding that has been allocated to a service to meet committed changes or budget pressures. However, a comparison of the total savings each service has contributed to the 2018/19 budget does indicate which services have borne the brunt of the budget reductions. This comparison is shown in Table 2 below:-

**Table 2**  
**Savings per Service 2013/14 to 2018/19 Compared to 2018/19 Net Revenue Budget**

<b>Service</b>	<b>Total Savings 2013/14 to 2018/19 £'000</b>	<b>2018/19 Budget £'000</b>	<b>2013/14 to 2018/19 Savings as % of 2018/19 Budget</b>
Schools	2,014	34,978	5.8%
Central Education and Youth	2,174	12,232	17.8%
Libraries, Culture & Heritage	415	1,302	31.8%
Adult Services	3,412	24,568	13.9%
Children's Services	862	8,160	10.6%
Leisure, Maritime & Economic Development	1,259	1,728	72.9%
Housing	459	912	50.3%
Highways, Waste & Property	6,157	14,664	42.0%
Regulation	882	1,966	44.8%
Council Business	327	1,485	22.0%
Resources	583	2,763	21.1%
Transformation	721	4,461	16.2%
Corporate Budgets	2,483	21,726	11.4%
<b>Total</b>	<b>21,748</b>	<b>130,945</b>	<b>16.6%</b>

**2.10** The table above shows that some level of protection has been afforded to Schools, Adult Services and Children's Services with the other front line services providing the greatest proportion of the savings in relation to their net budgets.

### **3 THE UK ECONOMIC OUTLOOK AND BUDGET**

**3.1** Although the Council's central funding comes from the Welsh Government, the UK Government provides the Welsh Government with its entire funding and what is happening with the UK economy and budget impacts directly on the Welsh Government and local government funding and an assessment of the UK situation is an important element of the Medium Term Financial Plan.

**3.2** A large amount of uncertainty still remains in respect of the UK economy and much will depend on the terms of the UK's departure from the European Union (Brexit). A no deal Brexit will almost certainly reduce economic growth in the short term which will impact on tax revenues and levels of public sector borrowing. The Government may fund any increase in the public sector deficit that is a consequence of a no deal Brexit through increased borrowing or they may aim to reduce public sector spending even further.

**3.3** The Spring Budget Statement suggests some relaxation in the austerity programme and, although the deficit for 2017/18 was lower than forecast, it is still estimated to be £34bn in 2019/20 and the Government now intends to eliminate the deficit by the mid 2020s compared to its plan in March 2016 of having a budget surplus of £10bn by 2020. The latest forecast for 2018/19 estimates that borrowing will be £23.7bn compared to an estimate of £37bn in the Spring Budget Statement.

**3.4** Further evidence of the relaxation in the austerity programme has arisen since the Spring Budget Statement. In June 2018, the Government announced annual average increases (above inflation) of 3.4% in the NHS budget in England. This will increase the budget by £20bn in real terms by 2023. This increase in funding will lead to a consequential increase in funding through the Barnett formula for Wales.

- 3.5** The Government has relaxed its 1% pay cap for public sector workers, with increases of between 2% and 3.5% announced in July 2018 for nurses, doctors, police officers, teachers and civil servants, although Government Departments were expected to fund these increases from existing budgets. Increases in teachers and other local government workers pay has a major impact on the Council's costs, the current pay bill for the Council is in excess of £70m. If the Council receives no additional funding to meet these additional costs, it will increase the level of savings which the Council has to find in order to achieve a balanced budget.
- 3.6** The current level of inflation (CPI) is 2.5% which is above the target of 2%, but the rate is expected to continue to fall during 2018 and to remain fairly constant around the 2% target in 2019/20.
- 3.7** In August 2018, the bank base rate rose from 0.5% to 0.75%, which is its highest level since the banking crisis in 2008. Further small rises are forecast during 2019 and 2020, but much will depend on the impact of Brexit on the economy. Increases in interest rates do not have any significant impact on the cost of the Council's current borrowing as the majority of loans have a fixed interest rate, however, the increase will make future borrowing more expensive. The returns which the Council makes on its investments will also increase slightly as interest rates rise.

#### **4 WELSH GOVERNMENT BUDGET**

- 4.1** Since the commencement of the austerity programme in 2010/11, the Welsh Government's budget has fallen by 11% and spending on local government in Wales has fallen by 18% in real terms compared to a 16% increase in health spending over the same period. The Health budget now forms 49% of the total Welsh Government budget compared to 42% in 2011/12, whilst the Local Government budget has fallen from 30% of the total Welsh Government budget to 28% over the same period.
- 4.2** As part of the 2018/19 budget settlement, the Welsh Government initially announced that the indicative settlement for 2019/20 would see a reduction of 1.5% in local government funding. Following on from the final budget settlement, this position was reviewed and the current indication is that the local government settlement will reduce by 1% in 2019/20.
- 4.3** The UK Government's announcement of an additional £20bn for the NHS in England by 2023 will result in the Welsh Government's budget increasing by £1.37bn over the same period. For 2019/20, it will result in an additional £370m for Wales. As Health funding is a delegated function, it is for the Welsh Government to decide how much of this additional funding is allocated to the Health Service and whether any of the funding finds its way into the local government settlement.
- 4.4** Prior to the announcement of the additional funding for the NHS in England, the Welsh Government had announced that the Health budget would increase by 3.1% in 2019/20. If all the additional funding of £370m was also directed to the Health service in Wales, this would amount to an 8.5% cash increase in the Health budget. The Welsh Local Government Association are currently lobbying Welsh Government to direct some of this additional funding to Local Government in 2019/20.
- 4.5** If no additional funding is forthcoming and the Aggregate External Finance (AEF) is reduced by 1%, this would result in a reduction of £900k in Anglesey's AEF. This would require an increase of 2.6% in Council Tax to make up the shortfall.

#### **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 continued increase in the national living wage has resulted in a requirement to increase the lowest pay points of the NJC pay scale significantly above the pay award. e.g. the lowest of the Council's pay points increased by 8% in 2018/19 and will increase by a further 7.1% in 2019/20. The consequence of these increases is that the differential between these lowest pay points and pay points higher up the scale have diminished. As part of the agreed pay award for 2019/20, the entire pay scale has been restructured. The headline increase is 2%, but the adjustments to the lower end of the pay scale makes the increase in the overall pay bill for non-teaching staff higher than 2%. Based on the current staffing structure, it is estimated that the 2019/20 will increase costs by 3%.

**ii. Teachers Pay Award**

The teachers' pay award for September 2018 to August 2019 has recently been announced. Although the headline figure was 3.5%, the increase for those on higher scales was set at 1.5% and 2%. If it is assumed that the pay award in September 2019 will be 2% on average, this gives an overall inflationary increase of 2% for 2019/20 based on the current staffing structure.

**iii. Teachers Pensions**

The triennial valuation of the teachers' pension scheme is due to take place in 2018 and the new employer's contribution rate will come into effect in April 2019. There is an expectation that it will rise from its current 16.48% to possibly 18% or even higher. Each 1% increase will increase the Council's employer contribution costs by approximately £200k (6%).

**iv. Fire Service Levy**

The North Wales Fire and Rescue Authority sets a levy each year with the cost being allocated amongst the 6 North Wales authorities on the basis of population. The increase in the levy is set by the Fire Authority, which is made up of representatives from the 6 authorities. The levy then becomes a cost which the Council incorporates into its budget. For 2018/19, the total levy set by the Fire Authority was £33.49m, which is 14% higher than the notional sum included in the Standard Spending Assessment for the North Wales authorities. The Fire Authority is currently consulting on increasing the levy by 5.7% in 2019/20. If implemented, this would increase the levy for Anglesey by £190k and widen the gap between the actual levy and the sum identified in the Standard Spending Assessment.

**v. Looked After Children**

The demand for services continues to rise and this, combined with a shortage of suitable placements, particularly on Anglesey, has placed the looked after children budget under considerable pressure. The Council allocated an additional £265k to this budget in 2018/19 and this, along with action taken by the Service, has reduced the overspend from £1.7m in 2017/18 to a forecasted £1.3m in 2018/19. Although further changes to be implemented during 2018/19 may reduce the level of overspend further, the budget has failed to be increased in line with the increased demand and this must be addressed in 2019/20. The medium term financial plan allows for increases of £1.1m in 2019/20 with further increases of £250k in 2020/21 and 2021/22.

**vi. Non School Education Budgets**

Increasing demand for school transport is a major concern within the Education budget with the overspend for 2018/19 estimated to be in excess of £300k. New contracts will be procured over the coming months and this may deliver some savings but, again, this underlying shortfall in the budget has to be addressed in the 2019/20 budget.

**vii. Canolfan Addysg Y Bont**

Prior to the opening of the new school, the capacity of the school was limited and pupil numbers remained constant and, as a result, the budget process did not allow for changes in pupil numbers. Since the opening of the new school, pupil numbers have begun to increase and this resulted in an additional £73k being allocated to the special school's budget in 2018/19. Pupil numbers at the school are forecast to increase by a further 15 in 2019/20 and 17 in 2020/21. The additional cost of each pupil is in the region of £13k and the increase in pupil numbers will increase teaching, care and support costs by £195k in 2019/20 and £220k in 2020/21. These additional costs have been allowed for in the Medium Term Financial Plan, although they will be subject to review prior to setting the 2019/20 budget.

**viii. 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. The service is currently managing demand and maintaining costs within budget but this situation may not be sustainable.

**ix. 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.

**x. Reduction in Specific Grants**

The Council continues to receive a number of revenue grants to fund services, with 6 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). In 2018/19, significant cuts were made to the Education Improvement Grant and the Environment Single Revenue Grant. Given that the provision of the services funded by grants is integrated into the services funded by the Council's core budgets, 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.

**xi. Major Service Contracts**

During the next 3 years, the Council will have to re-tender the contract for the provision of school meals and the collection of domestic waste and street cleaning. The Services have indicated that it is likely that the cost of the new contracts will be higher than the existing costs, although it is extremely difficult to determine the actual increase until the procurement exercise is undertaken. The Medium Term Financial Plan takes into account the potential for an increase in these contract values.

**xii. 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 incremental drift. The Medium Term Financial Plan does allow for these changes but they will be finalised when the initial budget for 2019/20 is considered by the Executive.



### xiii. General Price Inflation

Annual budgets are inflated to take account of general or specific inflation. The consumer price index is used as the main inflation factor and this is expected to remain at or around 2% for the foreseeable future. Contracts invariably have a method of calculating annual inflation built into the contract which is based on the consumer price index, the retail price index or an index specific to the industry. Retail price index historically has been between 0.8% and 1% higher than the consumer prices index. The budget process takes account of these different inflation factors.

## 6 INCOME

6.1 The Council's current income budget (excluding RSG, NDR and Council Tax) currently amounts to £30.6m, which is made up of grants and reimbursements from public bodies £17.8m, fees and charges set by statute or regulated by the Government or a long term rental agreement £7.5m and fees and charges where the Council has the discretion to set the fee or charge £5.2m.

6.2 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 and 2018/19, non-statutory fees were increased by 3% and, from 2019/20, the assumption is that non-statutory fees will be increased at 3% per annum or CPI, whichever is the higher.

## 7 PROJECTED STANDSTILL BUDGET FOR 2019/20 – 2021/22

7.1 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 2019/20 to 2021/22. 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 2018/19. The estimated standstill budget for the next three year period is shown in Table 3 below:-

**Table 3**  
**Projected Standstill Budget 2019/20 to 2021/22**

	2019/20 £'m	2020/21 £'m	2021/22 £'m
<b>Previous Year Final Budget</b>	<b>130.94</b>	<b>136.72</b>	<b>140.63</b>
One Off Costs and Contingencies falling out of the budget	(0.14)	(0.22)	-
New Budget Pressures	0.22	-	-
Pay Inflation, Pension Costs and Incremental Drift	2.55	1.73	1.71
Main Council Contracts – Inflation and Volume Changes	0.77	0.92	1.10
Changes in Demand Led Services	1.38	0.59	0.38
Non Pay Inflation	0.73	0.74	0.74
Levies	0.19	0.07	0.07
Council Tax Reduction Scheme	0.27	0.39	0.42
Income Increases	(0.69)	(0.71)	(0.70)
Capital Financing Costs	0.50	0.40	0.53
<b>Estimated Standstill Budget</b>	<b>136.72</b>	<b>140.63</b>	<b>144.87</b>

- 7.2 The estimated standstill budget represents a cash increase of 10.7% over the 3 year period.
- 7.3 More detail on the standstill budget and the assumptions that support the plan are attached as Appendix 2 and 3.

## 8 AGGREGATE EXTERNAL FINANCE AND COUNCIL TAX

- 8.1 The estimated standstill budget is funded from the level of aggregate external finance (AEF) received from the Welsh Government (Revenue Support Grant and NDR Pool Funding) and from the Council Tax raised locally.
- 8.2 As stated in paragraph 4 above, the situation regarding the local government settlement for 2019/20 is unclear and the position for 2020/21 and 2021/22 is even more difficult to predict. The only indication that has been received from Welsh Government is that the AEF will fall by 1% in total across Wales. A number of factors feed into the Revenue Support Grant formula and individual Council's allocations may be above or below this 1% figure.
- 8.3 The Welsh Local Government Association (WLGA)'s assessment that the additional funding for Wales arising from the additional funding for the NHS in England will be :-

2019/20 - £370m, 2020/21 - £180m, 2021/22 - £250m, 2022/23 - £260m, 2023/24 - £310m.

The Welsh Government had indicated that it would allocate an additional 3.1% to the NHS in Wales in 2019/20 prior to the announcement of the additional funding. If all of the additional funding was allocated to the NHS in Wales, this would amount to an increase of 8.5% in cash terms. Limiting the total cash increase to 5% would release £240m of the additional funding for other services. At present, we have no indication as to whether the Welsh Government will follow what the WLGA are advocating. For the purposes of the Medium Term Financial Plan, the assumption remains as a 1% reduction in AEF in 2019/20 followed by 2 years with no change in the settlement. As a result, the Council will have to fund all the inflationary and demand pressures listed in Table 3 from savings in existing budgets and an increase in the Council Tax.

- 8.4 Over the past 3 years, the level of increase in Council Tax has ranged between 2.5% and 4.8%, which is higher than inflation but has been necessary to partly make up for the reduction in AEF. The Band D charge for 2018/19 is £1,140, which is the 5<sup>th</sup> lowest in Wales, is £30 (2.63%) below the notional amount set in the Standard Spending Assessment, £101 (8.85%) below the Welsh Average and £48 (4.2%) below the average for the 6 North Wales Authorities.
- 8.5 For the purposes of the plan, it is assumed that Council Tax will increase by 5% in each of the three years. Based on these assumptions, the estimated total funding would be as shown in Table 4 below:-

**Table 4**  
**Estimated Council Funding – 2019/20 to 2021/22**

	2019/20 £m	2020/21 £m	2021/22 £m
AEF Brought Fwd	95.81	94.85	94.85
Council Tax Brought Fwd	35.13	36.89	38.74
<b>Total Funding Brought Fwd</b>	<b>130.94</b>	<b>131.74</b>	<b>133.59</b>
In year change in AEF	(0.96)	-	-
In Year change in Council Tax	1.76	1.85	1.94
<b>Total Funding Carried Fwd</b>	<b>131.74</b>	<b>133.59</b>	<b>135.53</b>

## 9 BRIDGING THE FUNDING GAP

9.1 The funding gap is the difference between the estimated standstill budget (Table 3) and the estimated funding available (Table 4). This is summarised in Table 5 below:-

**Table 5**  
**Estimated Funding Gap**

	<b>2019/20</b> <b>£m</b>	<b>2020/21</b> <b>£m</b>	<b>2021/22</b> <b>£m</b>
Estimated Standstill Budget	136.72	140.63	144.87
Savings Brought Forward	0.00	(4.98)	(7.04)
<b>Revised Standstill Budget</b>	<b>136.72</b>	<b>135.65</b>	<b>137.83</b>
Estimated Funding	131.74	133.59	135.53
<b>Annual Savings Requirement</b>	<b>4.98</b>	<b>2.06</b>	<b>2.30</b>
<b>% Savings Requirement</b>	<b>3.64%</b>	<b>1.51%</b>	<b>1.67%</b>

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

9.2 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 - £3.36m in 2018/19;  
Capital Financing Costs - £7.51m in 2018/19;  
Council Tax Reduction Scheme - £5.32m in 2018/19;  
Historic Pension Costs - £1.05m in 2018/19;  
General and Specific Contingencies - £1.14m in 2018/19.

It will, therefore, be necessary to find the required savings of £9.34m over 3 years from service budgets, totalling £112.56m (2018/19 budget). This equates to savings of 8.3% over 3 years.

9.3 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.

9.4 The strategy has been successful and the Council has been able to set a balanced budget each year without having to rely on the use of general balances. This has also been achieved whilst still protecting the budgets for Schools and Social Services.

9.5 However, as we move into the next three years, the scope to generate the required level of savings by these methods alone is considerably less, revenue budgets are overspending and the level of general balances has fallen below an acceptable level. The Council must now change its strategy in order to continue to deliver the required savings. The areas which will require action include:-

- 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.
- Creating other bodies controlled by the Council to deliver services – trusts, local authority trading companies. Services that can be transferred include leisure centres and Oriel Ynys Môn.
- Modernising schools and reviewing the future of small schools under 120 pupils.
- Reviewing the number of secondary schools and how post 16 education is provided on Anglesey.
- Managing the demand for social care services and reducing the support given to those people who are less in need.
- Providing more care to the elderly at home or in extra care facilities. This will reduce the number of placements in residential homes and will lead to a review as to whether the Council continues to operate residential care homes or purchases the service provision entirely from the private sector.
- Increasing the charges made to service users both for statutory and non-statutory services.
- Stopping the provision of some non-statutory services.
- Continue to modernise the administration of services and expect the public to undertake more transactions with the Council on line or via AppMôn.
- Deciding on whether having the 5<sup>th</sup> lowest Council Tax in Wales is sustainable. It may be necessary to increase Council Tax levels above the 5% assumption in order to generate sufficient funding to balance the revenue budget.

**9.6** Achieving a balanced budget over the next 3 years by following the actions set out in paragraph 9.5 will require difficult decisions to be made and there are a number of risks which may prevent the Council in delivering all of these actions. These include:-

- A continued increase in the demand for services.
- An expectation from the public that the Council will continue to provide services to the same level that it has previously done.
- Welsh Government assesses service delivery and still expects service improvements.
- Public opinion against above inflation increases in Council Tax, particularly if the range of services provided is reducing – paying more for less.
- Strong resistance from communities and Members to the closure of facilities in their areas. The Council has already seen this during the process to modernise schools on the Island with communities campaigning to keep Ysgol Talwrn, Ysgol Bodffordd and Ysgol Biwmares open.
- The capacity to deliver change within the Council. As management structures have been reviewed and reduced, the numbers of experienced staff have reduced and this makes it more difficult for the remaining staff to manage the existing services whilst implementing significant changes.
- Difficulties in finding willing partners which the Council can outsource services to. Difficulties have already been experienced in outsourcing small services, such as cultural assets and public conveniences.

## **10 CONCLUSIONS**

- 10.1** The future funding of Local Government in Wales is very uncertain at the present time and accurately forecasting future funding levels is difficult.
- 10.2** Even if the Welsh Government releases additional funds for local government, it is unlikely that any increase will be sufficient to bridge the funding gap shown in Table 5. Significant cuts to budgets will still need to take place over the next 3 years.
- 10.3** The budget cuts will have to come from changes in the way the Council delivers services and a reduction in the services it delivers. Attempting to deliver the services currently provided with significant reductions in funding will lead to the continued overspending of budgets, further reductions in the level of general balances and a significant risk to the financial viability of the Council. Difficult and unpopular decisions will have to be taken in order that the Council delivers a balanced budget, which accurately reflects the costs of running the services it provides.

## MEDIUM TERM FINANCIAL PLAN

## APPENDIX 2

<u>Revenue Expenditure</u>	2018/19	2019/20	2020/21	2022/23
	£'000	£'000	£'000	£'000
<b>Delegated Schools Budgets</b>				
Teachers Pay	20,300,870	20,742,492	21,213,139	21,672,788
Non Teaching Pay	3,534,520	3,650,289	3,729,518	3,810,330
National Insurance	2,561,430	2,617,151	2,673,956	2,731,895
Teachers Pensions	3,250,010	3,719,073	3,799,795	3,882,129
Non Teaching Pensions	486,460	502,393	513,298	524,420
Cleaning	843,940	870,102	887,504	905,254
Energy	1,219,470	1,269,468	1,321,516	1,374,377
NDR	857,490	883,215	909,711	935,183
Other non staff related expenditure	4,279,710	4,369,584	4,461,345	4,550,572
Pupil Number Adjustment	-	213,900	511,200	602,900
Funded by Education Reserves	-	-	-	-
<b>Total Delegated Schools Budgets</b>	<b>37,333,900</b>	<b>38,837,668</b>	<b>40,020,983</b>	<b>40,989,849</b>
<b>Non School Staffing Costs</b>				
Teachers Pay	556,370	568,473	580,812	593,397
Non Teaching Pay	32,625,550	33,694,162	34,425,490	35,171,424
National Insurance	2,876,460	2,970,675	3,035,153	3,100,919
Teachers Pensions	92,840	106,239	108,545	110,897
Superannuation Pension Contributions	5,538,450	5,719,856	5,844,004	5,970,633
Car Allowances	636,260	636,260	668,073	668,073
Historic Pension Costs	1,054,680	1,087,375	1,109,123	1,131,305
Other Staff Costs	1,648,570	1,683,190	1,718,537	1,752,908
Apprenticeship Levy	333,300	344,217	351,688	359,308
<b>Total Staffing Costs</b>	<b>45,362,480</b>	<b>46,810,448</b>	<b>47,841,425</b>	<b>48,858,865</b>
<b>One Off Costs</b>				
Haulfre	95,000	95,000	95,000	95,000
Stem (4 years 2018/19 to 2021/22)	37,500	37,500	37,500	37,500
Regional Growth Bid	50,000	50,000	50,000	50,000
Edge of Care Team	240,000	-	-	-
<b>Total One Off Costs</b>	<b>422,500</b>	<b>182,500</b>	<b>182,500</b>	<b>182,500</b>
<b>Main Council Contracts</b>				
Refuse Collection	4,037,420	4,122,206	4,208,772	4,713,825
Refuse Disposal	1,699,360	1,701,059	1,702,760	1,702,760
Landfill Tax	17,970	18,150	18,331	18,478
Highway Maintenance	4,221,190	4,309,835	4,400,342	4,488,348
School Meals	2,156,620	2,201,909	2,468,340	2,517,707
School Transport	2,502,960	2,555,522	2,609,188	2,661,372
Public Service Bus Contracts	1,906,060	1,946,087	1,986,955	2,026,694
Education Joint Services	3,162,640	3,323,935	3,393,737	3,461,612
Residential Placements	7,425,560	7,648,327	7,877,777	8,098,354
Homecare Contracts	3,566,130	3,641,019	3,717,480	3,791,830
<b>Total Main Council Contracts Costs</b>	<b>30,695,910</b>	<b>31,468,048</b>	<b>32,383,683</b>	<b>33,480,980</b>

<b>Revenue Expenditure</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2022/23</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Other Demand Led Services</b>				
Children's Placements	3,864,230	4,911,436	5,112,805	5,317,317
Out of County School Placements	982,520	1,052,279	1,095,422	1,139,239
Supported Living	1,312,040	1,339,593	1,367,724	1,395,079
Homelessness	383,740	399,473	415,852	432,486
<b>Total Demand Led Services</b>	<b>6,542,530</b>	<b>7,702,781</b>	<b>7,991,804</b>	<b>8,284,121</b>
<b>Other Council Expenditure</b>				
NDR	1,008,200	1,038,446	1,069,599	1,099,548
Energy	1,104,940	1,150,243	1,197,402	1,245,299
Premises Costs Non Schools	2,950,154	3,012,107	3,075,361	3,136,869
Transport Costs	228,812	233,617	238,523	243,293
Supplies and Services	18,946,804	19,344,687	19,750,925	20,145,944
Members Allowances	686,700	707,988	722,147	736,590
Fire Service Levy	3,356,173	3,546,468	3,617,397	3,689,745
Other Levies	4,154	4,154	4,154	4,154
Council Tax Reduction Scheme	5,320,867	5,586,910	5,977,994	6,396,454
HRA Recharge	- 38,050	- 57,830	- 70,986	- 84,406
Contingencies	659,166	659,166	659,166	659,166
NDR Discretionary Rate Relief	60,000	60,000	60,000	60,000
Capital Financing Costs - MRP	3,036,380	3,265,540	3,437,882	3,667,144
Capital Financing Costs - Interest	4,475,082	4,752,210	4,979,240	5,278,582
<b>Total Other Council Expenditure</b>	<b>41,199,382</b>	<b>42,703,706</b>	<b>44,118,806</b>	<b>45,678,382</b>
<b>Potential Budget Pressures</b>				
Waste Contract Tender - Project Management		200,000		
Additional Teachers Pay Inflation 2018/19		20,000		
Salary & Grading Contingency		100,000	100,000	100,000
<b>Total Potential Budget Pressures</b>	<b>-</b>	<b>320,000</b>	<b>100,000</b>	<b>100,000</b>
<b>TOTAL GROSS EXPENDITURE</b>	<b>161,556,702</b>	<b>68,025,152</b>	<b>172,639,201</b>	<b>177,574,697</b>
<b>Income</b>				
Grants / Public Bodies Reimbursements	- 17,816,550	- 18,190,698	- 18,572,702	- 18,944,156
Statutory Income	- 7,513,770	- 7,671,559	- 7,832,662	7,989,315
Non Statutory Income	- 5,281,170	- 5,439,605	- 5,602,793	- 5,770,877
<b>Total Income</b>	<b>- 30,611,490</b>	<b>- 31,301,862</b>	<b>- 32,008,157</b>	<b>- 32,704,348</b>
<b>TOTAL NET EXPENDITURE</b>	<b>130,945,212</b>	<b>136,723,290</b>	<b>140,631,044</b>	<b>144,870,348</b>
<b>Savings Brought Forward from Previous Year</b>	<b>-</b>	<b>-</b>	<b>- 4,979,528</b>	<b>- 7,042,779</b>
<b>REVISED TOTAL NET EXPENDITURE</b>	<b>130,945,212</b>	<b>136,723,290</b>	<b>135,651,516</b>	<b>137,827,569</b>

**Funded By:**

<b>Revenue Support Grant</b>	- 73,237,638	- 72,505,262	- 72,505,262	- 72,505,262
Non Domestic Rates	- 22,574,199	- 22,348,457	- 22,348,457	- 22,348,457
Council Tax	- 35,133,375	- 36,890,044	- 38,734,546	- 40,671,273
<b>TOTAL FUNDING</b>	<b>- 130,945,212</b>	<b>-131,743,762</b>	<b>- 133,588,265</b>	<b>- 135,524,992</b>
<b>Savings Required</b>	-	<b>4,979,528</b>	<b>2,063,252</b>	<b>2,302,577</b>



## MEDIUM TERM FINANCIAL PLAN ASSUMPTIONS

	2019/20	Final 2020/21	2021/22
Teachers Pay Award	2.0%	2.0%	2.0%
Teachers Pension	12.3%	0.0%	0.0%
NI Rates	0.0%	0.0%	0.0%
Non Teaching Pay Award	3.1%	2.0%	2.0%
Non Teaching Pension	0.0%	0.0%	0.0%
Staff Turnover Adjustment	0.0%	0.0%	0.0%
Incremental Drift	0.2%	0.2%	0.2%
Car Allowance Inflation	0.0%	5.0%	0.0%
CPI	2.1%	2.1%	2.0%
RPI	3.0%	3.0%	2.8%
Energy Inflation	4.1%	4.1%	4.0%
Non Statutory Income	3.0%	3.0%	3.0%
Children's Placement Caseload	25.0%	2.0%	2.0%
Out of County School Placements	5.0%	2.0%	2.0%
Homelessness Caseload	2.0%	2.0%	2.0%
Education Joint Services	3.0%	0.0%	0.0%
Refuse Disposal Tonnage	-2.0%	-2.0%	-2.0%
CTRS Caseload	0.0%	2.0%	2.0%
Interest Rates Increase	0.3%	0.3%	0.3%
Fire Levy	5.7%	2.0%	2.0%
Other Levies	0.0%	0.0%	0.0%
AEF Projections	-1.0%	0.0%	0.0%
Council Tax Increase	5.0%	5.0%	5.0%
Refuse Collection	2.1%	2.1%	12.0%
Refuse Disposal	2.1%	2.1%	2.0%
Landfill Tax	3.0%	3.0%	2.8%
Highway Maintenance	2.1%	2.1%	2.0%
School Meals	2.1%	12.1%	2.0%
School Transport	2.1%	2.1%	2.0%
Public Service Bus Contracts	2.1%	2.1%	2.0%
MRP	7.5%	5.3%	6.7%
Interest on Additional Loans	5.9%	4.5%	5.8%

