

## ISLE OF ANGLESEY COUNTY COUNCIL

<b>REPORT TO:</b>	<b>EXECUTIVE COMMITTEE</b>
<b>DATE:</b>	<b>16 SEPTEMBER 2019</b>
<b>SUBJECT:</b>	<b>MEDIUM TERM FINANCIAL PLAN 2020/21 – 2022/23</b>
<b>PORTFOLIO HOLDER(S):</b>	<b>COUNCILLOR R WILLIAMS</b>
<b>HEAD OF SERVICE:</b>	<b>MARC JONES – DIRECTOR OF FUNCTION (RESOURCES) / SECTION 151 OFFICER</b>
<b>REPORT AUTHOR:</b>	<b>MARC JONES</b>
<b>TEL:</b>	<b>2601</b>
<b>E-MAIL:</b>	<a href="mailto:rmjfi@ynysmon.gov.uk">rmjfi@ynysmon.gov.uk</a>
<b>LOCAL MEMBERS:</b>	<b>n/a</b>

### **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?**

<b>1</b>	<b>Chief Executive / Strategic Leadership Team (SLT) (mandatory)</b>	The final draft of the report was discussed and agreed at the SLT, which was attended by the Chief Executive
<b>2</b>	<b>Finance / Section 151 (mandatory)</b>	n/a – this is the Section 151 Officer's report
<b>3</b>	<b>Legal / Monitoring Officer (mandatory)</b>	The final draft of the report was discussed and agreed at the SLT, which was attended by the Monitoring Officer
<b>4</b>	<b>Human Resources (HR)</b>	
<b>5</b>	<b>Property</b>	
<b>6</b>	<b>Information Communication Technology (ICT)</b>	
<b>7</b>	<b>Scrutiny</b>	
<b>8</b>	<b>Local Members</b>	
<b>9</b>	<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>		
Appendix 1 - Medium Term Financial Plan Appendix 2 - Resourcing Local Services 2020/21 – WLGA July 2019 Appendix 3 - Detailed 3 year estimate of Standstill Budget Appendix 4 - Plan Assumptions		
<b>FF - Background papers (please contact the author of the Report for any further information):</b>		

## MEDIUM TERM FINANCIAL PLAN 2020/21 – 2022/23

## 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 The Medium Term Financial Plan has been finalised during a period of uncertainty surrounding the UK economy and the impact on future levels of public expenditure. It was hoped that, by this point, the UK Government would have completed its Comprehensive Spending Review as planned, which would have provided the Welsh Government with some certainty over its funding over the next 3 years. This review has yet to take place and whether the UK leaves the European Union on 31 October 2019, with a deal or without a deal, will have an impact on public spending in 2020/21 and beyond.
- 1.3 The Welsh Government are currently planning to publish the draft settlement for Local Government on 10 December 2019, with the final settlement being published on 3 March 2020, which is significantly later than normal. However, the UK Chancellor has recently announced an interim spending review will take place in September 2019, and this may result in a change in the Welsh Government's timetable.
- 1.4 The Medium Term Financial 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 2019, the Council set the following budget :-

**Table 1**  
**2019/20 Revenue Budget**

	£'m
<b>2018/19 Final Net Revenue Budget</b>	<b>130.945</b>
Contractual and Other Committed Changes	0.796
Pay and Price Inflation	3.898
Transfer of Grants and New Responsibilities into the Settlement	0.173
Budget Pressures	1.959
Budget Savings	(2.561)
<b>2019/20 Final Net Revenue Budget</b>	<b>135.210</b>
<b>Funded By</b>	
Aggregate External Finance	95.791
Council Tax (including Premium)	39.419
<b>Total Funding 2019/20</b>	<b>135.210</b>

- 2.2 The aggregate external finance decreased by 0.30% and the Council Tax debit increased by 12.3%. The Band D charge was increased by 9.5% and the remainder of the increase was as a result of a change in the taxbase and an increase in the second homes premium from 25% to 35% and an increase in the empty homes premium from 25% to 100%.

- 2.3** In 2018/19, the net revenue budget was overspent by £0.633m, with the majority of the overspending relating to Looked After Children (£1.8m), Adult Services (£1.17m), School Transport (£0.34m). These overspends were offset by underspending in other services, which followed a planned economy drive and one off savings on capital financing costs. It is unlikely that services will again be able to underspend to the same level and, as a result, there was an underlying budget shortfall of around £3m.
- 2.4** In order to try and address the underlying budget shortfall, the 2019/20 budget included an additional £1.6m for Children's Services and associated Education costs. The majority of the overspend on Adults Services was to be funded from an additional Social Care Workforce Pressure Grant of £0.67m which the Welsh Government provided in addition to the Aggregate External Finance (AEF).
- 2.5** Changes to the employer's contribution in respect of teacher's pensions, which came into effect on 1 September 2019, increased costs by £0.8m. This was fully funded in the Council's final budget prior to the Welsh Government announcing that this would be funded by means of an additional grant. The Executive resolved to pass 50% of the grant received to schools to reduce the planned reduction in the delegated schools budget, with the remaining 50% being held centrally. It is unclear at this time whether the Welsh Government will provide this grant again, either included in the AEF or as a separate grant once again. It is also unclear whether the grant will be increased to meet the full year cost of the increased contribution rate, which will be approximately £1.4m for Anglesey.
- 2.6** Early indications are projecting an overspend of around £1.6m for 2019/20, which is mainly due to increased demand for adult social care, school transport and the cost of the Council Tax Reduction scheme, where the caseload has not fallen as anticipated when the budget was set. If this level of overspending actually materialises at the end of the 2019/20 financial year, it would be funded from the Council's general reserves.
- 2.7** The opening balance of general reserves as at 1 April 2019 is £5.912m and, with the addition of the 50% of the Teacher's Pensions Grant, this increases to £6.355m. This figure is below the minimum value of £6.76m (5% of the Council's 2019/20 net revenue budget) which was approved by the Executive in February 2019. This figure will be revised as part of the 2020/21 budget setting process. Given the current projected overspend in 2019/20 of £1.6m, the expectation is that the actual level of general reserves will fall to £4.8m, which will be below the recommended minimum value.
- 2.8** 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 may be necessary in future years to budget for a surplus in order that the level of the general reserves increases back to the recommended value over time. This will be a further financial pressure for the Council.
- 2.9** 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 £9.88m at 31 March 2019, a fall of £0.028m during the year. Although it is possible to transfer some of these reserves back to the general balances e.g. from committed projects which are not progressing, the scope is limited and will not increase the level of general balances significantly.

- 2.10** The level of school balances has fallen from a peak of £2.46m in 2015/16 to £0.63m at the end of the 2018/19 financial year, a reduction of 74% in 4 years. This reduction is a consequence of the financial difficulties facing the majority of the Council's schools. Schools are planning to use over half of these reserves during 2019/20 to balance their budget and it is likely that the number of schools in deficit will increase from the 16 schools which were in deficit at the end of 2018/19.
- 2.11** The 2019/20 revenue budget included a further round of savings amounting to £2.561m. This takes the total value of savings identified by the Council since 2013/14 to £24.31m. 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 2019/20 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 2019/20 Compared to 2019/20 Net Revenue Budget**

<b>Service</b>	<b>Total Savings 2013/14 to 2019/20 £'000</b>	<b>2019/20 Budget £'000</b>	<b>2013/14 to 2019/20 Savings as % of 2019/20 Budget</b>
Schools	2,640	38,659	6.8%
Central Education and Youth	2,377	10,374	22.9%
Libraries, Culture & Heritage	551	1,213	45.4%
Adult Services	3,998	25,036	16.0%
Children's Services	862	9,856	8.7%
Leisure, Maritime & Economic Development	1,388	1,785	77.7%
Housing	513	1,211	42.4%
Highways, Waste & Property	6,757	14,603	46.3%
Regulation	924	2,042	45.2%
Council Business	327	1,625	20.1%
Resources	613	3,006	20.4%
Transformation	764	4,471	17.1%
Corporate Budgets	2,594	21,329	12.2%
<b>Total</b>	<b>24,308</b>	<b>135,210</b>	<b>18.0%</b>

- 2.12** The table above shows that some level of protection has been given 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. During the 2019/20 budget process, it became increasingly more difficult to identify budget savings in the majority of services by means of efficiency savings alone. Budget savings resulted in the reduction or termination of some services and schools expected to contribute a higher level of savings than in previous years.

### **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. An assessment of the UK situation is an important element of the Medium Term Financial Plan.

- 3.2** A large amount of uncertainty 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 have an impact on tax revenues and levels of public sector borrowing. The UK Chancellor has stated that there is some headroom within the current fiscal policy, which would allow for an increase in public spending but some or all of this additional funding may be re-directed to support the economy if the UK leaves the EU on 31 October 2019, without a transitional agreement being in place.
- 3.3** The new Prime Minister made a number of statements during the Conservative leadership election and following his appointment as Prime Minister, that indicate a relaxation of the austerity programme and an increase in public spending in areas such as Health and Policing. The new Prime Minister has also indicated the intention to reduce individuals' tax burden by increasing personal allowances and changing when the higher rate of tax is payable. This would, on the face of it, reduce the Government's income generated through income tax, but it is argued by some economists that lowering the amount people pay in tax will stimulate the economy, increase people's income and generate more tax revenues. If this does not happen and public expenditure is increased, it will be necessary for the Government to increase borrowing.
- 3.4** The Spring Budget Statement did indicate that the Government has some scope to increase borrowing. The figures show that the level of borrowing has fallen to £22.8bn in 2018/19, compared to £25.5bn forecast in October 2018. The latest forecast is that annual borrowing will be £13.5bn by 2023/24. The Government has set a target for the structural budget deficit to be below 2% of GDP by 2020/21. The current forecast gives the Chancellor a £26.6bn headroom.
- 3.5** The overall Government debt still stands at around £1.8tn and is not expected to change over the period to 2023/24, but as a percentage of GDP, it is expected to fall from 83.7% of GDP in 2018/19 to 73.0% of GDP by 2023/24. This again gives the Chancellor some potential to increase public sector borrowing.
- 3.6** The UK economy has grown in each quarter since 2012 until the 2<sup>nd</sup> quarter of 2019, when GDP fell by 0.2%, compared to the previous quarter, which was unexpected. This may be due to stockpiling by businesses during quarter 1, prior to the initial Brexit exit date and forecasts still show that the economy is expected to grow during 2019.
- 3.7** Wage growth in the UK is currently running at 3.9%, although this is higher in the private sector than the public sector. The 2019/20 teacher's pay rise has been announced, with an increase of 2.75% from September 2019. For the remainder of local government employees, the pay rise was 2%. Clearly, there is a gap between pay rises in the public and private sector and this will probably lead to increased pay demands from public sector unions.
- 3.8** Inflation is currently around 2% and is not expected to change significantly, unless the UK leaves the EU without a deal. Leaving without a deal would invariably lead to price increases in the short term, which would push up inflation. The main underlying pressure to inflation is the fact that pay increases are now exceeding the inflation level. Other factors which could impact on inflation are oil prices, which could be influenced by the situation in the Middle East, and the value of sterling, which is at a very low level which increases the cost of imports.
- 3.9** Interest rates are currently at 0.75% and are forecast to rise slowly and gradually over the coming years. This is of course dependant on Brexit and whether the UK leaves the EU with or without a deal. Leaving without a deal would probably result in an increase in inflation in the short term but lower growth in the long term. As a result, interest rates may have to be lowered in order to provide some stimulus to the economy, although the scope for interest rate cuts is minimal, given the current low level of rates.

- 3.10** Clearly the economic situation has improved, with borrowing reduced and overall debt levels, as a percentage of GDP, falling. This gives the UK Chancellor some scope to increase public spending, but Brexit remains a massive uncertainty and what the UK Government would do in the event of a No Deal Brexit. The new Prime Minister has indicated some additional funding for the NHS and the Police, but whether this translates to additional funding to the public sector generally is unclear at this stage.

## **4 WELSH GOVERNMENT BUDGET**

- 4.1** Since 2009/10, the Welsh Government's budget has fallen by 4%, after adjusting for inflation. Despite this, funding on Health Services has increased by 20% over the period, whilst the funding for Local Government has fallen by 20% (after allowing for inflation and transfers) and this figure increases to 35% if you exclude funding for schools.
- 4.2** In 2019/20, the grant funding for Local Government in Wales increased by 0.2% in cash terms, which is a 1.8% reduction after allowing for inflation, compared to an increase in Welsh Government day to day spending of 2% in real terms. The majority of this increase was directed to Health and Social Care, which saw a 5% increase in real terms.
- 4.3** In 2019/20, the Welsh Government allocated 48% of its day to day spending to the NHS in Wales, compared to 41% at its lowest point in 2012/13.
- 4.4** It was the UK Government's intention to undertake a comprehensive spending review during the summer of 2019, which would have given an indication on the Welsh Government's funding for the next three years. However, this review has been postponed and a one year quick review will be undertaken during September 2019.
- 4.5** The last set of plans published by the Office for Budget Responsibility (OBR) assumed that the UK departmental budgets would increase in real terms by 1.2% in the years to 2023/24, but that this growth would be directed to health and defence budgets with all other spending area budgets remaining flat in real terms. If this is the continued plan, the Welsh Government's budget would increase due to the consequential for Health budgets.
- 4.6** In setting the 2019/20 budget, the Welsh First Minister did state that Local Government was first in the queue if additional funding was available, but whether this is still applicable for 2020/21 remains to be seen.
- 4.7** The position regarding the Local Government settlement is further confused by the fact that Councils received additional grant funding in 2019/20, outside the normal settlement, to meet the costs of increases in Teachers Pay and Pensions and to meet the increased costs of Social Care. It is unclear whether these grants will be incorporated into the settlement in 2020/21 and whether they will be at the same level as 2019/20. This is discussed further in paragraph 8 of this report.

## **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. The Welsh Local Government Association (WLGA) recently published a paper "Resourcing Local Services in 2020/21". The paper details the impact of austerity on local government in Wales and sets out the budget pressures that Councils are currently facing generally across Wales (the paper is attached as Appendix 2).

**i. Pay Increases**

As stated in paragraph 3.7 above, pay growth in the private sector is higher than in the public sector and this, combined with the impact of the continued increase in the national living wage, is putting pressure on pay. The Unions have recently submitted a 10% pay claim and an increase of the minimum wage level to £10 per hour. The 2019/20 non teaching pay budget (including on-costs) for Anglesey is around £44m and any above inflation pay rise would increase the budget pressures for the Council.

**ii. Teachers Pay Award**

The setting of teachers pay has recently been delegated to the Welsh Government and the pay award for September 2020 to August 2021 has recently been announced. The pay award announced was a 2.75% increase but with a 5% increase for newly qualified teachers. No announcement was made as to whether the Welsh Government would be funding this increase through the settlement or not. The 2019/20 teaching pay budget (including on costs) for Anglesey is £28m and a 2.75% increase represents an increase in costs of around £0.75m.

**iii. Teachers Pensions**

The triennial valuation of the teachers' pension scheme resulted in an increase in the employer's contribution rate from 16.48% to 23.6% from September 2019. The full year cost of this for Anglesey is £1.3m per annum. In 2019/20, the additional cost for the period September 2019 to March 2020 was funded by the Welsh Government, by means of an additional grant (£900k). It is unclear at this stage as to whether this grant funding is permanent and, if it is, whether it will cover the full year cost.

**iv. Non Teaching Pensions**

The triennial valuation for the LGPS scheme is currently taking place with the results being announced early in the new year. The current contribution rate for Anglesey is 18.6%. The funding position of the scheme has improved significantly over the past 3 years, but there are a number of factors which the Actuary takes into account which can influence the revised contribution rate. It is not expected that there will be a need to raise the contribution rate in April 2020, but a 1% increase does result in a £60k increase in the Council's costs.

**v. Looked After Children**

The number of children in care continues to rise across Wales (36% in 9 years). This increase has also occurred on Anglesey, with almost double the amount of children being looked after compared to 10 years ago. The cost of each placement has also increased, with specialist placements outside the County costing in the region of £250k per annum for children needing high levels of care. The Council increased the budget by £1.4m in 2019/20 and the Service is looking to increase the availability of care provided by the Council locally, with the aim of reducing the average placement costs. This has improved the budget position significantly, with early indications suggesting that Children's Services will be within budget for 2019/20 but any further increase in the number of children being looked after will again put a strain on the Looked After Children's budget.

**vi. Adult Social Care**

The percentage of the population in Wales over 65 years of age continues to rise, with Wales being the 7<sup>th</sup> highest country in terms of percentage of population over 65 in the world. Anglesey has the third highest figure in Wales and its percentage has risen from 21.6% in 2009/10 to 25.5% in 2017/18. Given these increases in the elderly, the WLGA estimate that spending will have to grow by 4% above inflation to meet the demand for services.

For 2019/20, the current forecast is that the Adult Social Care budget will overspend by £1m from a budget of £25.5m (a 4% overspend). Correcting this budget position in addition to meeting increased demand will increase the Council's costs significantly.

**vi. Non School Education Budgets**

A significant amount of work has been undertaken by the Service to review how school transport is provided and which pupils receive free transport. In addition, all the minibus and taxi contracts were re-procured in 2018/19. Despite this, it is estimated that an additional £250k of funding will be required to meet the current level of demand.

**vii. Canolfan Addysg y Bont**

Pupil numbers at the school continue to rise. In 2019/20, the Council included an additional £192k to fund the rise in pupil numbers from 92 to 104. These numbers are forecasted to rise, with 120 expected to be at the school in September 2019 and 135 by September 2020. Pupil led funding in 2019/20 is £15,500 per pupil and as a result, additional funding of £250k will be required in 2020/21 and £240k in 2021/22.

**viii. Major Service Contracts**

During the next 3 years, the Council will have to re-tender the contract for the provision of school meals (to commence September 2020) and the collection of domestic waste and street cleaning (to commence April 2021). 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.

**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 has an impact 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, if the Council moves forward with the remainder of the Band A and the Band B projects (Llangefni area, Seiriol, Amlwch), 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, estimated to be £800k by 2022/23.

**x. Council Tax Reduction Scheme**

Since the funding for the Council Tax Reduction scheme transferred into the local government settlement, Welsh Government funding has remained unchanged. As the levels of Council Tax increase, the cost, which falls on the taxpayers of Anglesey, increases although this increase has been offset by a fall in the number of people claiming a reduction. In 2019/20, Council Tax rose by 9.5% and the caseload has levelled off. If the trend in caseload continues and numbers do not fall, the additional cost resulting from the rise in Council Tax will have to be funded. Each 1% rise in Council Tax creates an additional funding pressure of between £50k and £60k.

**xi. Regional Growth Bid**

The bid for regional growth funding is continuing with agreement being sought by the 6 North Wales authorities with the UK and Welsh Governments. Although the main capital funding will be provided by the 2 governments, the Councils may be required to undertake short term borrowing to ensure that cash is available to fund the profiled expenditure. In addition, there will be revenue costs to deliver the project and to provide suitable governance arrangements. A proportion of these costs will fall on the 6 Councils to fund. The Medium Term Financial Plan takes account of Anglesey's potential share of these costs but it should be noted that these are estimated costs and may change significantly (both upwards or downwards) as the projects progress.

**xii. 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). 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. Although no indication has been received that any of these grants will be reduced, the Welsh Government are currently reviewing the formula for distributing the Supporting People grant and there is a risk that Anglesey will see its grant reduced following the review.

**xiii. 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 and they will be finalised when the initial 2020/21 budget is considered by the Executive.

**xiv. 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 price 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 £17.6m, which is made up of grants and reimbursements from public bodies, fees and charges set by statute or regulated by the Government or a long term rental agreement and fees and charges where the Council has the discretion to set the fee or charge.

**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 2019/20, the assumption was agreed that non-statutory fees would be increased at 3% per annum or CPI, whichever is the higher. The plan continues on this assumption.

## 7 PROJECTED STANDSTILL BUDGET FOR 2020/21 – 2022/23

- 7.1 By 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 2020/21 to 2022/23. 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 2019/20. The estimated standstill budget for the next three year period is shown in Table 3 below:-

**Table 3**  
**Projected Standstill Budget 2020/21 to 2022/23**

	2020/21 £'m	2021/22 £'m	2022/23 £'m
<b>Previous Year Final Budget</b>	<b>135.21</b>	<b>141.37</b>	<b>146.21</b>
One Off Costs and Contingencies falling out of the budget	0.25	0.10	0.03
Pay Inflation, Pension Costs and Incremental Drift	2.25	1.59	1.60
Main Council Contracts – Inflation and Volume Changes	0.74	1.31	0.42
Changes in Demand Led Services	2.49	1.01	0.56
Non Pay Inflation	0.49	0.51	0.51
Levies	0.07	0.07	0.07
Council Tax Reduction Scheme	0.32	0.33	0.35
Income Increases	(0.40)	(0.41)	(0.41)
Capital Financing Costs	(0.05)	0.32	0.52
<b>Estimated Standstill Budget</b>	<b>141.37</b>	<b>146.21</b>	<b>149.86</b>

- 7.2 The estimated standstill budget represents a cash increase of 10.6% over the 3 year period.
- 7.3 More detail on the standstill budget and the assumptions that support the plan are attached as Appendix 3 and 4.

## 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 2020/21 is unclear and very difficult to predict, and trying to predict the likely settlement for the 2 subsequent years is even more difficult.
- 8.3 In 2019/20, Anglesey received £95.791m in Aggregate External Finance from the Welsh Government, with a further £1.73m received as additional grants to assist with the costs of Teachers pay and Pensions and the rising cost of social care. The grant relating to the increase in teachers pensions only covered the period from September 2019 to March 2020. To cover the full year, the grant would have to be £630k higher, increasing the total of grant funding to £2.36m.
- 8.4 Table 4 below shows the impact of 3 different scenarios and various reductions or increases in the level of AEF compared to the combined sum of AEF and additional grant funding received in 2019/20.

**Table 4**  
**Potential Changes to the AEF in 2020/21**

	<b>1% Cut in AEF £'m</b>	<b>No Change in AEF £'m</b>	<b>1% Increase in AEF £'m</b>	<b>2% Increase in AEF £'m</b>
2019/20 Additional Grant Funding not included in 2020/21 AEF	(2.69)	(1.73)	(0.77)	0.18
2019/20 Additional Grant Funding included in 2020/21 AEF as per 2019/20 cash received	(0.96)	0.00	0.96	1.92
2019/20 Additional Grant Funding included in 2020/21 AEF as per 2019/20 cash received plus the full year effect of the Pensions Grant	(0.27)	0.69	1.64	2.60

- 8.5** It can be seen from the table above that the various scenarios can result in a range of changes in AEF in 2020/21 from a reduction of £2.69m to an increase of £2.60m, which is a range of £5.29m. This range is significant and highlights the difficulties in planning for the 2020/21 budget and beyond. For the purposes of the Medium Term Financial Plan it is assumed as a worst case scenario that the AEF will be cash flat and that the 2019/20 grants will not be included, which gives a net reduction in the Council's funding of £1.73m. The best case scenario is that the grants will be included within the AEF and increased to take account of the full year effect of the Teachers Pensions costs giving an additional £0.69m in funding. In both cases, it is assumed that there will be no change in the AEF in 2021/22 and 2022/23, with the funding received being as per the funding received in 2020/21.
- 8.6** In September 2017, the Executive resolved to increase Council Tax by 5% in each of the 3 subsequent years, this compared to rises of 2.5% in 2017/18 and 4.8% in 2018/19. Despite setting out their intention of a 5% rise in Council Tax, the actual rise for 2019/20 was 9.5%. For the purposes of the Medium Term Financial Plan, it is assumed that the Council Tax will continue to rise by 5% per annum, with no change in the Council Tax premium percentages i.e. 35% for 2<sup>nd</sup> homes and 100% for empty properties.
- 8.7** Based on these funding assumptions, the estimated total funding would be as shown in Table 5 below:-

**Table 5**  
**Estimated Council Funding – 2020/21 to 2022/23**

<b>Best Case Scenario</b>			
	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £'m</b>
AEF Brought Fwd	95.791	95.791	95.791
Council Tax Brought Fwd	39.419	41.391	43.461
Additional Grant Funding Brought Fwd	1.731	2.417	2.417
<b>Total Funding Brought Fwd</b>	<b>136.941</b>	<b>139.599</b>	<b>141.669</b>
In year change in AEF	0.000	0.000	0.000
In Year change in Council Tax	1.972	2.070	2.173
In Year Change in Additional Grant Funding	0.686	0.000	0.000
<b>Total Funding Carried Fwd</b>	<b>139.599</b>	<b>141.669</b>	<b>143.842</b>
<b>Worst Case Scenario</b>			
	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £'m</b>
AEF Brought Fwd	95.791	95.791	95.791
Council Tax Brought Fwd	39.419	41.391	43.461
Additional Grant Funding Brought Fwd	1.731	0.000	0.000
<b>Total Funding Brought Fwd</b>	<b>136.941</b>	<b>137.182</b>	<b>139.252</b>
In year change in AEF	0.000	0.000	0.000
In Year change in Council Tax	1.972	2.070	2.173
In Year Change in Additional Grant Funding	(1.731)	0.000	0.000
<b>Total Funding Carried Fwd</b>	<b>137.182</b>	<b>139.252</b>	<b>141.425</b>

- 8.8 It should be noted that the analysis shown above was prepared prior to the UK Chancellor's statement on the Departmental Spending Review which was announced on 4 September 2019. The outcome of that announcement is that the Welsh Government's revenue budget will increase in 2020/21 by £593m, which is equivalent to a 2.3% increase in real terms. The Welsh Government has not made any announcement to date as to how this additional funding will be used and whether this will result in a real terms increase in the Local Government budget. The figures noted above assume a settlement with no change in the funding received through the settlement but with 2 differing assumptions on the additional grant funding. Clearly, a real increase in the Welsh Government budget does allow for the possibility of a settlement with increased total funding, if the Welsh Government chooses to do so.

## **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 5). This is summarised in Table 6 below:-

**Table 6**  
**Estimated Funding Gap**

<b>Best Case Scenario</b>			
	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>
Estimated Standstill Budget	141.371	146.209	149.854
Savings Brought Forward	0.000	(1.972)	(4.340)
<b>Revised Standstill Budget</b>	<b>141.371</b>	<b>144.237</b>	<b>145.514</b>
Estimated AEF & Grant	(98.208)	(98.208)	(98.208)
Council Tax B / Fwd	(39.419)	(41.391)	(43.461)
<b>Annual Savings Requirement (Before Council Tax Increase)</b>	<b>3.744</b>	<b>4.638</b>	<b>3.845</b>
Additional Council Tax – increase of 5%	(1.972)	(2.070)	(2.173)
<b>Annual Savings Requirement (After Council Tax Increase)</b>	<b>1.772</b>	<b>2.568</b>	<b>1.672</b>
<b>Worst Case Scenario</b>			
	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>
Estimated Standstill Budget	141.371	146.209	149.854
Savings Brought Forward	0.000	(4.189)	(6.957)
<b>Revised Standstill Budget</b>	<b>141.371</b>	<b>142.020</b>	<b>142.897</b>
Estimated AEF & Grant	(95.791)	(95.791)	(95.791)
Council Tax B / Fwd	(39.419)	(41.391)	(43.461)
<b>Annual Savings Requirement (Before Council Tax Increase)</b>	<b>6.161</b>	<b>4.838</b>	<b>3.645</b>
Additional Council Tax – increase of 5%	(1.972)	(2.070)	(2.173)
<b>Annual Savings Requirement (After Council Tax Increase)</b>	<b>4.189</b>	<b>2.768</b>	<b>1.472</b>

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

- 9.2** Under the best case scenario, over the 3 year period the total budget gap before the increase in Council Tax is £12.2m. Increasing Council Tax by 5% per annum would generate an additional £6.2m in income, leaving a requirement to find a total of £6.0m of savings over a 3 year period.
- 9.3** Under the worst case scenario, over the 3 year period the total budget gap before the increase in Council Tax is £14.6m. Increasing Council Tax by 5% per annum would generate an additional £6.2m in income, leaving a requirement to find a total of £8.4m of savings over a 3 year period.

- 9.4** 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 - £3.52m in 2019/20;  
Capital Financing Costs - £6.99m in 2019/20;  
Council Tax Reduction Scheme - £5.26m in 2019/20;  
Historic Pension Costs - £1.08m in 2019/20;  
General and Specific Contingencies - £1.22m in 2019/20.

It will, therefore, be necessary to find the required savings of between £6.0m and £8.4m over 3 years from service budgets, totalling £117.14m (2019/20 budget). This equates to savings of between 5.1% and 7.2% over 3 years.

- 9.5** 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.

- 9.6** 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 been achieved whilst still protecting the budgets for Schools and increasing the budget for Children's Services.

- 9.7** 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. The smaller services i.e. other than Education and Social Care, have generated all the savings they can and to deliver the level of savings required from these services alone would require significant cuts in both statutory and non-statutory service provision

- 9.8** The Council has examined the possibility of making savings through alternative delivery models e.g. transferring services to others, setting up arms length trading companies or trusts and working in partnership with the private sector. Some services are now delivered by this alternative delivery method e.g. Melin Llynnon, Beaumaris Gaol, Public Conveniences, Holyhead Park, but these did not generate significant savings. It is not believed that achieving significant savings through alternative delivery methods is possible given the size of the Council's services, the capacity within the Council to deliver the change and the availability and willingness of external organisations to deliver Council services on Anglesey.

- 9.9** Although the Council will work to deliver savings as it has done previously, in order to deliver the savings required, the strategy must change and will require:-

- Stopping the provision of some non-statutory services.
- 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.
- 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 7<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.

**9.10** Achieving a balanced budget over the next 3 years by following the actions set out in paragraph 9.9 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.
- 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.

## **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 6. 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 3

<b>Revenue Expenditure</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Delegated Schools Budgets</b>				
Teachers Pay	20,342,440	20,849,461	21,303,123	21,765,858
Non Teaching Pay	3,566,080	3,643,818	3,723,104	3,803,975
National Insurance	2,575,050	2,639,231	2,696,658	2,755,233
Teachers Pensions	4,062,090	4,747,383	4,850,681	4,956,045
Non Teaching Pensions	489,980	505,561	516,561	527,782
Cleaning	934,760	953,455	972,524	991,975
Energy	1,317,930	1,371,965	1,428,216	1,485,344
NDR	894,460	922,188	950,776	977,398
Other non staff related expenditure	4,476,070	4,570,067	4,666,039	4,759,360
Pupil Number Adjustment	-	326,859	375,064	147,614
Funded by Education Reserves	-	-	-	-
<b>Total Delegated Schools Budgets</b>	<b>38,658,860</b>	<b>40,529,990</b>	<b>41,482,746</b>	<b>42,170,584</b>
<b>Non School Staffing Costs</b>				
Teachers Pay	461,100	472,593	482,876	493,364
Non Teaching Pay	31,207,220	31,887,516	32,581,353	33,289,068
National Insurance	2,950,220	3,014,533	3,080,126	3,147,031
Teachers Pensions	89,770	104,915	107,197	109,526
Superannuation Pension Contributions	5,648,060	5,827,664	5,954,468	6,083,808
Car Allowances	551,530	551,530	579,107	579,107
Pension Deficit Lump Sum Payment	1,203,350	1,203,350	1,203,350	1,203,350
Historic Pension Costs	1,075,800	1,000,494	930,459	865,327
Other Staff Costs	772,500	788,723	805,286	821,391
Apprenticeship Levy	339,970	347,381	354,940	362,650
<b>Total Staffing Costs</b>	<b>44,299,520</b>	<b>45,198,698</b>	<b>46,079,162</b>	<b>46,954,621</b>
<b>One Off Costs</b>				
Haulfre	95,000	95,000	95,000	95,000
Stem (3 years 2019/20 to 2021/22)	37,500	37,500	37,500	-
Regional Growth Bid - Interest Costs	-	151,750	261,125	327,375
Regional Growth Bid - Project Board and Accountable Body Costs	50,000	150,000	150,000	150,000
<b>Total One Off Costs</b>	<b>182,500</b>	<b>434,250</b>	<b>543,625</b>	<b>572,375</b>
<b>Main Council Contracts</b>				
Refuse Collection	4,217,610	4,306,180	4,827,228	4,972,044
Refuse Disposal	1,703,450	1,705,153	2,116,095	2,116,095
Landfill Tax	18,800	19,007	19,216	19,370
Highway Maintenance	3,800,530	3,880,341	3,961,828	4,041,065
School Meals	2,282,030	2,463,071	2,617,423	2,669,772
School Transport	2,543,370	2,846,794	2,906,577	2,964,708
Public Service Bus Contracts	1,973,640	2,015,086	2,057,403	2,098,551
Education Joint Services	2,114,540	2,158,945	2,204,283	2,248,369
<b>Total Main Council Contracts Costs</b>	<b>18,653,970</b>	<b>19,394,578</b>	<b>20,710,054</b>	<b>21,129,975</b>

<b>Revenue Expenditure</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</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	5,379,160	6,030,038	6,458,171	6,716,498
Elderly Service Provision	6,085,460	6,274,109	6,468,607	6,662,665
Physical Disability Service Provision	1,060,970	1,274,225	1,313,726	1,353,138
Learning Disability Service Provision	5,205,280	5,965,251	6,150,174	6,334,679
Mental Health Service Provision	1,109,280	1,387,709	1,430,728	1,473,650
Out County School Placements	1,267,710	1,319,686	1,373,793	1,428,745
Homelessness	391,420	407,468	424,174	441,141
<b>Total Demand Led Services</b>	<b>20,499,280</b>	<b>22,658,487</b>	<b>23,619,373</b>	<b>24,410,516</b>
<b>Other Council Expenditure</b>				
NNDR	978,340	1,008,669	1,039,937	1,069,056
Energy	1,148,160	1,195,235	1,244,239	1,294,009
Premises Costs Non Schools	2,856,510	2,916,497	2,977,743	3,037,298
Transport Costs	185,630	189,528	193,508	197,378
Supplies and Services	7,406,620	7,562,159	7,720,964	7,875,384
Members Allowances	741,680	756,514	771,644	787,077
Fire Service Levy	3,522,800	3,593,256	3,665,121	3,738,424
Other Levies	5,130	5,130	5,130	5,130
Council Tax Reduction Scheme	5,259,540	5,575,112	5,909,619	6,264,196
HRA Recharge	- 638,050	- 650,811	- 663,827	- 677,104
Contingencies	1,034,380	1,034,380	1,034,380	1,034,380
NDR Discretionary Rate Relief	60,000	60,000	60,000	60,000
Capital Financing Costs - MRP	2,766,410	2,747,270	2,864,170	3,130,950
Capital Financing Costs - Interest	4,223,520	4,197,203	4,398,870	4,657,038
<b>Total Other Council Expenditure</b>	<b>29,550,670</b>	<b>30,190,141</b>	<b>31,221,499</b>	<b>32,473,215</b>
<b>TOTAL GROSS EXPENDITURE</b>	<b>151,844,800</b>	<b>158,406,144</b>	<b>163,656,459</b>	<b>167,711,285</b>
<b>Income</b>				
Grants / Public Bodies Reimbursements	- 5,007,830	- 5,112,994	- 5,220,367	- 5,324,775
Statutory Income	- 5,845,070	- 5,967,816	- 6,093,141	- 6,215,003
Non Statutory Income	- 5,781,710	- 5,955,161	- 6,133,816	- 6,317,831
<b>Total Income</b>	<b>- 16,634,610</b>	<b>- 17,035,972</b>	<b>- 17,447,324</b>	<b>- 17,857,609</b>
<b>TOTAL NET EXPENDITURE</b>	<b>135,210,190</b>	<b>141,370,171</b>	<b>146,209,135</b>	<b>149,853,676</b>

## MEDIUM TERM FINANCIAL PLAN ASSUMPTIONS

	2020/21	2021/22	2022/23
Teachers Pay Award	2.3%	2.0%	2.0%
Teachers Pension	14.4%	0.0%	0.0%
NI Rates	0.0%	0.0%	0.0%
Non Teaching Pay Award	2.0%	2.0%	2.0%
Non Teaching Pension	1.0%	0.0%	0.0%
Historic Pension Costs	-7.0%	-7.0%	-7.0%
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	3.1%	3.1%	2.8%
Energy Inflation	4.1%	4.1%	4.0%
Non Statutory Income	3.0%	3.0%	3.0%
Children's Placement Caseload	10.0%	5.0%	2.0%
Out of County School Placements	2.0%	2.0%	2.0%
Homelessness Caseload	2.0%	2.0%	2.0%
Education Joint Services (including inflation)	2.1%	2.1%	2.0%
Refuse Disposal Tonnage	-2.0%	-2.0%	-2.0%
Council Tax Reduction Scheme	1.0%	1.0%	1.0%
Bank Base Rate Increase	0.3%	0.3%	0.3%
Fire Levy	2.0%	2.0%	2.0%
Other Levies	0.0%	0.0%	0.0%
Refuse Collection (including inflation)	2.1%	12.1%	3.0%
Refuse Disposal (including inflation)	2.1%	26.1%	2.0%
Landfill Tax	3.1%	3.1%	2.8%
Highway Maintenance (including inflation)	2.1%	2.1%	2.0%
School Meals (including inflation)	7.9%	6.3%	2.0%
School Transport (including inflation)	11.9%	2.1%	2.0%
Public Service Bus Contracts (including inflation)	2.1%	2.1%	2.0%
Elderly Service Provision (in addition to inflation)	1.0%	1.0%	1.0%
Physical Disabilities Service Provision (in addition to inflation)	18.0%	1.0%	1.0%
Learning Disabilities Service Provision (in addition to inflation)	12.5%	1.0%	1.0%
Mental Health Service Provision (in addition to inflation)	23.0%	1.0%	1.0%
MRP	0.0%	4.3%	9.3%
Interest on Additional Loans	0.0%	4.8%	5.9%



# Resourcing local services 2020-21

All our communities rely on local government



CLILC • WLGA

## Resourcing local services 2020-21

Wales' councils are the **foundations of our communities**. They provide vital everyday local services, from schools, to housing, to social care, to local transport. They provide a local democratic voice to Wales' diverse communities. In doing so, councils and the services:

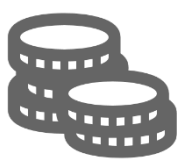
- **protect and the support** the most vulnerable in our communities
- **Tackle inequalities** within and across Wales' communities
- Promote a **fairer Wales** through inclusive growth

Councils are the economic bedrock of Wales:

- employing **over 10% of the Welsh workforce** and educating and training our future workforce
- spending **£3.5bn on goods and services** in national and local economies
- promoting **ambitious economic growth and regional regeneration** across all corners of Wales.

Local services create opportunities for every citizen which help **sustain and strengthen our communities**.

## How do councils do this?



**£4.2bn**

revenue support  
from Welsh  
Government



**£1.4bn**

in Council Tax from  
residents



**£1.5bn**

infrastructure  
(capital) spending

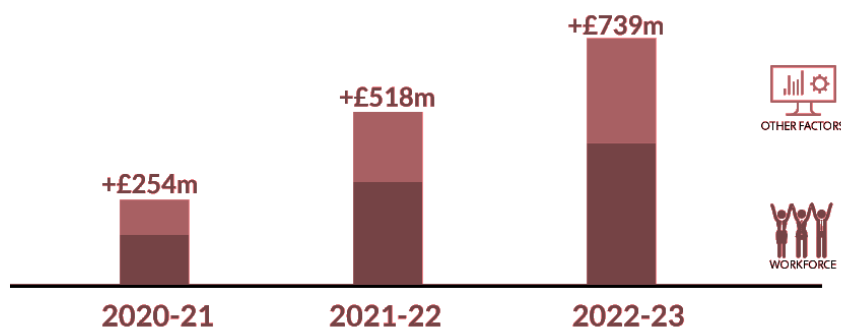


**149,000**

full time and part  
time employees (incl  
26k teachers)

## What local services need over the next three years

### Cumulative pressure



Just to stand still on providing current services, councils would need a revenue increase of £254m (5% of net spend) in 2020-21 and similar amounts thereafter.

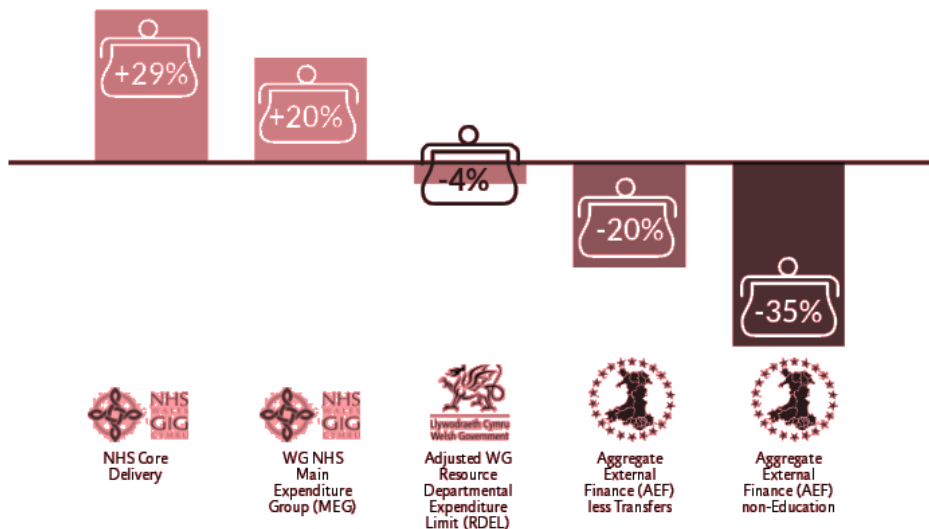
Unavoidable pay and pensions workforce costs are increasingly driving significant inflationary pressures.



## Ten years of austerity

Local services have borne the brunt of austerity; core grant funding has reduced by 20% after adjusting for inflation by 2019-20.

### Change in Funding since 2009-10



inflation by 2019-20.

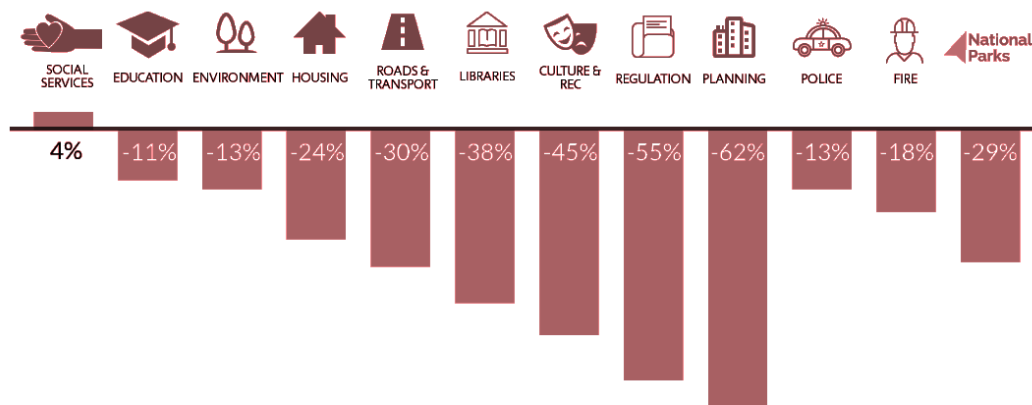
Core funding has fallen by 35%, if you don't include schools funding, as is the case in English local government.

Although schools and social care have been relatively protected, this has not been enough to keep up with demand.

Other local services, those services that are most visible and valued by our communities have been devastated. A decade of cuts has seen the loss of assets, facilities and services that have been a core part of communities for generations; the risk is that once such assets and services are lost, they are unlikely ever to be replaced.

Our services are preventative services, they have an impact on community safety and health and

### Service spend change since 2009-10

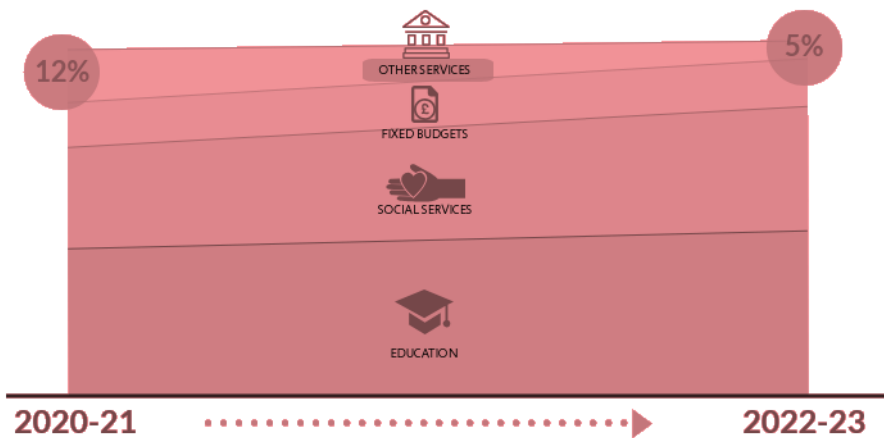


wellbeing. Our services are the **local health service** that can prevent costly burden on the National Health Service.

## The structure of budgets for local services

Social Care and Education account for nearly 75% of total net revenue spend on local services.

### Budget structure



Another 13% of the budget is fixed: it is outside the control of the council such as debt repayments, support for council taxpayers or levies for other bodies such as fire.

In the past, cuts were visited on the remaining budget which accounts for 12% of the overall budget. It is difficult to see how it can be reduced even more.

On current projections local government will be required to absorb nearly £0.75bn of pressures over the next three years. Either discretionary spend will decline to 5% of budgets or local authorities will start to make cuts in services that have traditionally been protected.

Without more resource schools will have to drastically pull back on teaching and non-teaching staff levels. Social care thresholds will need to increase. Vital spending on key services such as economic development, public protection, waste and culture will be paired back even further.



# What services need from the 2020-21 Budget

Local services therefore need sustainable, fair and flexible funding – councils need greater fiscal autonomy and flexibility to respond to local needs and priorities:

Revenue Settlement	A better funding framework
<ul style="list-style-type: none"><li>✓ Full funding of workforce costs and protection of the local government workforce</li><li>✓ Additional investment in high cost high need services to reflect complex needs</li><li>✓ No more cuts and local government funding pegged to the Welsh Government Budget</li><li>✓ A sustainable rent policy for social housing</li></ul>	<ul style="list-style-type: none"><li>✓ New responsibilities to be fully funded</li><li>✓ Multiyear budget settlements</li><li>✓ Greater accountability for health budgets</li><li>✓ Greater flexibility around grant schemes that should ultimately be transferred into the settlement</li><li>✓ A sustainable approach to the future funding of social care</li></ul>
Local Taxation	Capital Investment, Infrastructure & Growth
<ul style="list-style-type: none"><li>✓ No council tax capping</li><li>✓ Reform of local taxation to make it fairer</li><li>✓ Powers to introduce discretionary taxation.</li></ul>	<ul style="list-style-type: none"><li>✓ Increased funding to return investment to pre-2009-10 levels</li><li>✓ Reduction in the retention rate for 21st Century Schools</li><li>✓ Access to capital subsidy to enable a significant increase in the supply of affordable and social housing at pace and scale</li></ul>

## Longer Term & Future Generations

Over the long term, linking in with the overall Welsh Government budget process, we need a fundamental review of Wales' priorities and how services are funded, ultimately with a view of improving outcomes. We must prioritise and invest in those services that prevent negative outcomes in the future and contribute most to sustainable economic growth.

This is a requirement under the Well-being of Future Generations Act. Our priorities for our communities should align with the goals of that Act. In pursuing them it is important that time is invested at inception to identify the most sustainable way forward. That means early involvement of stakeholders and collaboration with appropriate partners. It also means developing integrated approaches designed to deliver the best 'whole life' outcomes and counter any negative trends. The funding framework should support this.

## Our essential local services

### Social Protection, Well-being & Prevention



#### Children's Services

(£656m, 8.9% of total spend)

Funding cuts, coupled with growing demand for children's social services, has created an extremely challenging environment for councils all over the country as they seek to intervene with families earlier and prevent problems from escalating, recruit and retain more social workers and ensure sufficient placement choice to meet the often complex needs of children and young people. From large rural counties to city councils, it is consistently reported that demand for children's services is putting local authority budgets under enormous pressure.

According to Wales Fiscal Analysis' *Cut to the Bone; Local Government Finances in Wales*, spend on children's social care has increased by £96 million (33%) in real terms since 2009-10, largely a reaction to the increase in demand. Since March 2009, the total number of children in care across Wales has risen from 4,695 to 6,405 in 2018, an increase of 1,710 (36%) in nine years. There has been and is growing concern at these high numbers and local authorities, working with Welsh Government, are working to reduce the number of children in their care and prevent more children coming into the 'looked after' system.

While reducing the number of children in care will reduce some costs for local authorities over time, investment is currently required to provide appropriate and preventative services to achieve these objectives, for example, increased access to therapeutic support and trauma-informed models of care.



## Adult Social Care

(£1.3bn, 17% of total spend)



Adult social care is one of our most vital public services. It supports adults of all ages across a wide spectrum of need to live as independently as possible and protects people from harm in vulnerable situations. Nearly 77,000 people received social services from local authorities during 2017-18, with over 130,000 services provided. Demand for services continues to increase – by 2035, the number of people aged over 65 will have increased by a third and the number aged over 85 will have doubled. Spending will have to grow at 4% every year on top of general inflation to meet these pressures.

The health of the population depends on far more than just the quality of health care services. Key determinants of health are largely outside the control of health services and so the quality of, and spending on, social care and other preventative services has one of the strongest impacts on the demand for health care.

Adult social care touches the lives of millions, whether that be people working in the sector, those who receive services, or their informal carers, friends and family. Its paid workforce is larger than that of the NHS. It is a vital connector to other public, private and voluntary sector services. And it contributes some £2.2 billion to our national economy, creating 127,000 jobs.

## Support for Carers



Councils provide vital support to unpaid adult and young carers, helping them to manage their caring role. There are more than 370,000 unpaid carers in Wales, with the increase in the older population, we are likely to see more older people in a caring role, with the number of carers over 85 predicted to double in the next 20 years. Councils provide vital support to people, young and old to help them to remain in their caring role.

Councils' ability to continue to provide the vital services and support that is essential to carers is being undermined by the continued cuts to council budgets. Whilst local government has kept the worst consequences of austerity at bay, in recent years its impact is now catching up with councils, threatening services that improve people's lives and their communities, including services vital to supporting carers. If carers are not appropriately supported, it can lead to

increased social isolation and add to pressures on both the carer's finances and their health and wellbeing.

There is a clear case around the need to invest in the early intervention and prevention services that are of benefit to carers and help to prevent unpaid carers being pushed to breaking point.



## Affordable Housing and Tackling Homelessness (£148m, 2.0 % of total spend)

For the first time in decades, Councils are now beginning to build significant number of new homes. Councils are also continuing to make significant investment to ensure that their existing stock meets or exceeds the Welsh Housing Quality Standard by 2020. In total, Councils will be spending more than £435m on housing capital projects during the year.



Over 9,000 households were threatened with homelessness last year, and numbers are increasing. Councils have important roles preventing and reducing homelessness and rough sleeping. Early intervention is critical to achieving this and providing debt advice; tackling cases of domestic abuse; benefit help; and assistance with managing rent arrears all contribute to this aim.

## Welfare Advice and Support (£22m, 0.3 % of total spend)



Benefit teams across Wales administer payments to around 206,000 Housing Benefit claimants and 277,989 Council Tax Support recipients every year, alongside managing the impact of the roll out of Universal Credit which is now claimed by over 100,000 in Wales (nationally 2 million).



Local Authorities council tax collection rates for 2018/19 are confirmed to be 97.3% of council tax billed, a decrease on the previous year of 0.1 of a percentage point although a better result than England and Scotland (both 97%).

Helping deal with debt and the consequences of debt is an important aspect of Councils' work. The latest figures from Money Advice Service (now Money and Pension Service) noted that the average of over-



indebtedness per local authority has increased from 15.4 to 15.5% in Wales however the detailed report is not yet available to see the details on a LA level.

## Libraries, Recreation and Leisure

(£191m, 2.6% of total spend)

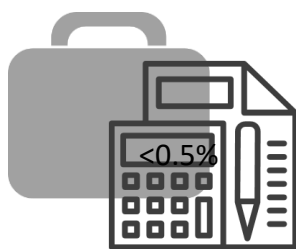


Councils play an integral role in promoting healthy lives across communities and providing access for all to services which can improve their health and well-being. This includes providing sport facilities, leisure centres, libraries, museums and parks, as well as organising or promoting cultural activities. These services form the fabric of communities and are geared to ensure that those who have least access and are least financially advantaged can use the services. The cultural and social benefits of these services also encourage people come into and participate in their communities and are very often tourist attractions in their own rights, thus helping to grow inclusive local economies. Spending on culture and recreation fell by 45% between 2009-10 and 2018-19 and spending on libraries fell by 38%. Important local services are being hollowed out.

## Regulatory & Environmental

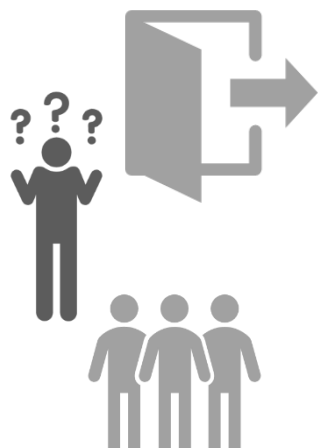
### Public Protection - Environmental Health, Licensing, Trading Standards

(£56m, 0.8% of total spend)



These services protect the fundamentals of life, and the public rely on the council to provide them; Food safety, air quality, sanitation, safe work places, safe homes, ensuring what we buy is safe, and the price is correct. Government departments are now eyeing up portions of these local services, projecting them as failing, and looking to take them in to central control. The social safety net which local government has always provided is being taken away, and we are watching it happen.

These services are under significant threat, due to cost pressures which have seen budgets decimated by 55% to levels of funding last seen in the mid-1990s. The total budget for Public Protection Services is typically less than a half of one percent of the local government budget. Further reductions would have severe consequences.



For Trading Standards and Environmental Health Services there has been a sharp decline in the workforce, worryingly, these are officers with specialist skills and knowledge not available elsewhere in local government. Statutory competency requirements will be breached, leading to legal challenge and review. Both workforces have an ageing demographic and very few new entrants. Qualifications, training and recruitment is at a critical point for sustainability.

There is an immediate need to reinvest in these services, to retain local focus on safety of our communities, and to stave off a coveting central government.

If this trend continues for the next five years public protection services will break, and those unique protections will be lost from local government. Given the potential of substantial regulatory change in the aftermath of Brexit and strong demand from SME's for regulatory advice and support, there is a severe risk that Wales will be very poorly placed to respond to the many and diverse challenges, routinely dealt with by public protection departments.



## Planning & Development Control (£29m, 0.4% of total spend)

Each of the 25 planning authorities in Wales (22 local authorities and 3 national parks authorities) sets the framework for the development and use of land within their area through the preparation of a Local Development Plan. They are collaborating at a regional level to co-ordinate strategic land use planning matters and support sustainable regional development across authority areas.



The Planning service plays a vital role in promoting and controlling building development, protecting and conserving the environment, supporting business and economic development, protecting architectural heritage and encouraging high standards of building design and environmental management. It therefore fundamentally shapes the places and environments in which communities and businesses operate. The achievement of inclusive and sustainable growth depends heavily on the planning system being able to identify and facilitate spatial relationships based on good connectivity, efficient interaction and the minimisation of unnecessary journeys. However,



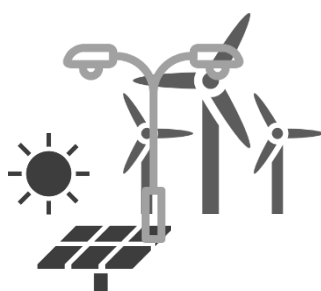
successive cuts since 2009-10 have seen Planning budgets roughly halved, reducing the capacity of authorities to pursue these ends.

## Waste Management and Energy Efficiency (£248m, 3.4% of total spend)



Local authorities collected 1.55m tonnes of municipal waste from households across Wales according to the latest published data for 2017-18 (dropping from 1.59m tonnes in 2016-17).

For the first time, there was a small decrease in percentage of this material that was prepared for reuse, recycling or composting. The rate fell slightly between 2016-17 and 2017-18 (from 63.8 to 62.7%). This decrease was partly due to an improvement in the quality of reporting but also reflects the steady reduction in the grant provided to local authorities. The recycling level exceeded the 58% target that applied in 2017/18 and Wales remains second in Europe and third in the world for the recycling of household waste. However, the target rose to 64% for 2019/20 and will rise further to 70% in 2024-25 so continued progress is needed.



For many years now, Welsh Government has supported local authorities with grants to develop recycling services and assistance in the procurement of treatment facilities. Recent progress, though, has had to be made in the face of a reduction in the level of that grant support. On a like-for-like basis, grant funding has reduced by 40% in real terms from the peak. To maintain progress, WLGA has pressed for further planned reductions in funding to be revisited, to reflect increases in labour and fuel costs. In addition, work is needed to encourage – and where necessary enforce – changes in household behaviour to ensure the recycling facilities provided by councils are fully used. There is also a need for investment in new reprocessing facilities so that materials have a ready domestic market and can be turned into new products as part of a ‘circular resource economy’.



Councils continue to provide advice and to signpost households to various sources of support to help improve energy efficiency. They have also taken steps to improve their own energy efficiency by switching to LED street lighting and to generate more of the energy they use from renewable sources.

## Inclusive Growth & Economic Growth

### Education

(£2.7bn, 37% of total spend)



Public investment in schools and education is an essential part of helping individuals to fulfil their potential and to enable them to contribute meaningfully to sustainable and prosperous communities. A good education system is central to providing equality of opportunity and overcoming differences in socio economic circumstances. Empowering people, through effective schools and skill development, is an effective way of creating employment opportunities and reducing poverty.



Local government is committed to raising standards in education and improving outcomes for learners because of these individual and collective benefits. Councils spend £2.6 billion a year on educating children and young people, with educational services covering early years as well as school-based and community education.



Part of that spend includes local authorities' capital match funding for the multi-billion pound 21st Century Schools investment programme to refurbish and rebuild schools across Wales. The second phase was launched recently with Welsh Government's intervention rate for mainstream schools increasing from 50% during the Band A phase to 65% for Band B, which has been welcomed by local government.



Education in Wales is experiencing major reform and central to these changes is the implementation of a new curriculum for 3-16 year olds, which puts literacy, numeracy and digital competence at the heart of the education system. There are also changes to teacher training and professional development, a greater focus on leadership and an emphasis on schools as inclusive institutions within a self-improving system. Local government supports and promotes all of these reforms, including the proposed changes to Additional Learning Needs (ALN) - but they must be adequately resourced. This means fully funding the increased workforce pay pressures for the forthcoming year - £36m for the teachers' pay award in 2019-20 - as well as the additional teachers' pension costs incurred by employers. There are also other cost pressures associated with successfully delivering the new curriculum and the potentially unpredictable cost of ALN reform. These reforms are welcomed but effective high cost-high need services carry considerable financial burdens for councils. Consultation currently

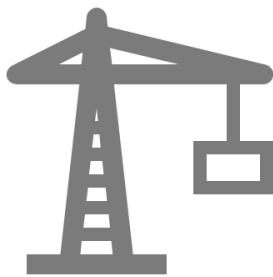




underway on Elective Home Education also has the potential to add to pressures on council spending,

There is anxiety also over the continued use of specific grants and complicated funding streams used to deliver policy initiatives. In order to deliver these much needed reforms, we must to reduce the complexity and confusion that undermines local flexibility and democratic oversight. The recent Children and Young people's Committee Report on, *School Funding in Wales* highlights the need to simplify the process and provide greater clarity in the way schools are funded.

## Inclusive Economic Growth (£20m, 0.3% of total spend)



Local authorities across Wales have been working together regionally to promote economic development in ways that will benefit all communities. Although official unemployment in Wales is now 4.5% (May 2019), low productivity, low wages and job insecurity remain major issues. City Deals have been secured with the UK Government and the Welsh Government for the Cardiff Capital Region and for Swansea Bay, while Growth Deals are being pursued by North Wales and Growing Mid Wales. The deals are intended to improve productivity, raise skills and connect communities with new opportunities.

Local authorities work closely with the private sector not only in terms of the direct business support they offer but also in relation to a range of other issues such as regional development plans, transport, waste, trading standards, environmental health, education and skills development, care services and housing demand. As well as being major employers, employing around 10% of the total Welsh workforce, councils also spend around £3.5 billion on local and national businesses through procurement.

## Highways, Transport and Infrastructure (£270m, 3.7% of total spend)



The highway infrastructure is critical to all other services and to the efficient operation of local business and social activity. Local authorities have been developing Highway Asset Management Plans

(HAMPs) to enable a more strategic approach to the way they look after this vital asset (e.g. programmes of highway resurfacing to deal with potholes; maintenance programmes for structures). For HAMPs to operate effectively, the level of funding must be sufficient to enable councils to follow up on the recommendations they generate. Revenue funding has reduced by 26%.

An increasing share of local authority highways funding has been supporting the development of smaller-scale, active travel routes for walking and cycling. Bus services are being encouraged to form part of more integrated approaches, including 'metro' developments as part of the city/regional deals. Councils are having to consider what transport will look like in the future. Answers to questions about the future role of autonomous vehicles, electric, hydrogen and hybrid cars and buses, car clubs and active travel will help to determine the investment needed in infrastructure for the future. The need to decarbonise transport to meet targets in the Climate Change Act and Environment Act will be a fundamental consideration here. Welsh Government has recently pledged not only to accept the Committee on Climate Change (CCC) recommendation for a 95% reduction in greenhouse gas emissions in Wales by 2050 but seek to go further and achieve 'net-zero'.



Connectivity involves more than the highway network. Increasingly, digital connectivity and (high speed) broadband is a vital consideration for households, tourists and businesses. Local authorities have worked with Welsh Government and service providers to facilitate the roll out of superfast broadband. Providing greater digital access to councils' own services is increasingly important, too, as a way of improving service delivery and accessibility and realising efficiency savings.





---

Local Government House  
Drake Walk  
Cardiff CF10 4LG

[www.wlga.wales](http://www.wlga.wales)

@WelshLGA