

ISLE OF ANGLESEY COUNTY COUNCIL

REPORT TO:	EXECUTIVE COMMITTEE
DATE:	28 SEPTEMBER 2020
SUBJECT:	MEDIUM TERM FINANCIAL PLAN 2021/22 – 2023/24
PORTFOLIO HOLDER(S):	COUNCILLOR R WILLIAMS
HEAD OF SERVICE:	MARC JONES – HEAD OF FUNCTION (RESOURCES) / SECTION 151 OFFICER
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LOCAL MEMBERS:	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	Chief Executive / Strategic Leadership Team (SLT) (mandatory)	The final draft of the report was discussed and agreed at the SLT, which was attended by the Chief Executive
2	Finance / Section 151 (mandatory)	n/a – this is the Section 151 Officer's report
3	Legal / Monitoring Officer (mandatory)	The final draft of the report was discussed and agreed at the SLT, which was attended by the Monitoring Officer
4	Human Resources (HR)	
5	Property	
6	Information Communication Technology (ICT)	
7	Scrutiny	
8	Local Members	
9	Any external bodies / other/s	

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

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

MEDIUM TERM FINANCIAL PLAN 2021/22 – 2023/24**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 significant uncertainty surrounding the UK economy following on from the global pandemic and the continuing Brexit negotiations. Both are unprecedented events and will have an 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 is unlikely to be completed prior to the announcement of the draft Local Government Settlement by the Welsh Government.
- 1.3** Uncertainty still exists surrounding the timetable for the publication of the draft and final Local Government Settlement. In normal times, the Council would normally receive the draft settlement in October, with the final settlement being received in the run up to Christmas. The 2020/21 draft settlement was not received until January 2020, with the final not received until March 2020, so the precedent for a late settlement has been set.
- 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 March 2020, the Council set the following budget:-

Table 1
2020/21 Revenue Budget

	£'m
2019/20 Final Net Revenue Budget	135.210
Contractual and Other Committed Changes	1.428
Pay and Price Inflation	3.537
Transfer of Grants and New Responsibilities into the Settlement	0.048
Budget Pressures	2.230
Budget Savings	(0.307)
2020/21 Final Net Revenue Budget	142.146
Funded By	
Aggregate External Finance	101.005
Council Tax (including Premium)	41.141
Total Funding 2020/21	142.146

- 2.2** The aggregate external finance increased by 3.78% (after adjusting for the change in the taxbase and grants transferred into the settlement) and the Council Tax debit increased by 4.9%. The Band D charge was increased by 4.5% and the remainder of the increase was as a result of a change in the taxbase.
- 2.3** In 2018/19, the net revenue budget was underspent by £0.308m. Both Adult Services (£1.085m over budget) and Children's Services (£0.156m over budget) continued the performance seen in 2018/19 but the budget overspend in Children's Services was considerably lower than in 2018/19 following the increase of £1.4m in the 2019/20 core revenue budget. These overspends were offset by underspending in other services, which followed a planned economy drive and one off savings on capital financing costs. The start of the global pandemic also restricted expenditure during the final 2 weeks of the financial year which had some impact.
- 2.4** In order to try and address the underlying budget shortfall, the 2020/21 budget included an additional £0.98m for Adult Services, £0.25m for school transport, £0.20m for secondary school integration and also cancelled a proposed cut of £0.8m in the delegated schools' budget which was deferred in 2019/20. The 2020/21 budget also fully funded the full year cost of the increase in Teachers Pensions Employer Contributions (£0.564m) and increased the Council Tax Reduction Scheme budget by £0.627m to meet the increased number of claimants.
- 2.5** The net underspend in 2019/20 and the movement between reserves resulted in the balance of general reserves increasing to £7.060m from £5.912m. This equates to 4.96% of the 2020/21 net revenue budget, which is very close to the minimum target figure of 5% which has been set by the Council.
- 2.6** The significant unknown is the impact of the global pandemic on the Council's finances. As reported to the Executive in July 2020, there is a potential that, as a result of lost income, increases in the number of Council Tax Reduction scheme cases, losses in the collection of Council Tax and additional demand for services, in particular social care services, as society moves out of the lockdown could result in a potential overspend in 2020/21 of around £3.5m. There is a significant amount of uncertainty surrounding the position and a lot will depend on the level of additional financial support that the Welsh Government will provide over the coming months. Any overspend at the end of the financial year will have to be funded from the Council's reserves and it is likely that the £7m will be much lower at the end of the 2020/21 financial year.
- 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 £8.76m at 31 March 2020, an increase of £0.032m 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.
- 2.8** The level of school balances has fallen from a peak of £2.46m in 2015/16 to £0.197m at the end of the 2019/20 financial year, a reduction of 92% in 5 years. This reduction is a consequence of the financial difficulties facing the majority of the Council's schools. The majority of schools were planning to use their remaining balances to balance their budget in 2020/21. However, the closure of schools for the vast majority of the summer term will provide some savings for schools and it is anticipated that the overall level of school balances will increase by the end of 2020/21.

2.9 The 2020/21 revenue budget included a further round of savings amounting to £0.307m, although this figure is considerably lower than the savings applied in previous years. 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 2020/21 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 2020/21 Compared to 2020/21 Net Revenue Budget

Service	Total Savings 2013/14 to 2020/21 £'000	2020/21 Budget £'000	2013/14 to 2020/21 Savings as % of 2020/21 Budget
Schools	2,640	41,373	6.4%
Central Education	2,245	10,954	20.5%
Libraries, Culture & Heritage	551	1,285	42.9%
Adult Services	3,998	26,863	14.9%
Children and Youth Services	996	10,951	9.1%
Leisure, Maritime & Economic Development	1,430	1,882	76.0%
Housing	614	1,168	52.6%
Highways, Waste & Property	6,825	15,208	44.9%
Regulation	947	2,132	44.4%
Council Business	335	1,668	20.1%
Resources	673	3,109	21.6%
Transformation	769	4,993	15.4%
Corporate Budgets	2,593	20,560	12.6%
Total	24,616	142,146	17.3%

2.10 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 2020/21 budget process, it became increasingly more difficult to identify budget savings in the majority of services by means of efficiency savings alone although, due to a better than expected settlement, there was little need to implement the savings plans.

2.11 The services that have been largely protected from budget savings (Schools, Adult Services, Children and Youth Services) and corporate budgets, which are more difficult to reduce, account for £99.747m of the net budget (70.1%), the 3 support services (Council Business, Resources and Transformation) account for £9.77m of the net budget (6.9%), which leaves the remainder of the front line services (Central Education, Libraries, Culture and Heritage, Leisure, Maritime, Economic Development, Housing, Highways, Waste and Property and Regulation) accounting for £32.629m of the net budget (23.0%). Since 2013/14, these unprotected front line services have put forward 51% of the total savings.

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 The global pandemic, and the action that the UK Government has taken to support the economy since March 2020, has changed the economic position significantly, with borrowing now exceeding £2 trillion, which is over 100% of the country's GDP for the first time since March 1961. It is expected to reach its highest level as a proportion of GDP since the Second World War.
- 3.3 The level of public sector expenditure in 2021/22 is very much dependant on how quickly the economy recovers. If the number of coronavirus cases in the UK remains low, and this allows a greater level of normality to return, then this may allow for a "V" shaped recovery and this should allow businesses to re-employ staff, thus increasing tax revenues and reducing the welfare budget. This is a very optimistic view and the recovery may be more of an "U" shape, where the recovery does not recommence until Spring 2021 or a "W" shaped recovery, if the country encounters a second wave of coronavirus cases over the winter period.
- 3.4 Another event which may have a significant impact on the economy is whether the Brexit negotiations result in an agreement being reached between the UK Government and the European Union. If the discussions do not reach a successful conclusion, then a no deal Brexit will result, which again could reduce the size of the UK economy and either result in higher borrowing or less public expenditure.
- 3.5 As a response to the pandemic, there is likely to be a push for more spending on the NHS, in order to increase capacity and also to increase the pay of health and care workers. Again, this would have to be funded through higher taxes, higher borrowing or cuts in other budgets. As the Government have not made any long term budget statements since the pandemic, it is unclear what the overall budget strategy will be.
- 3.6 Wage growth prior to the pandemic was running at around 3% but this fell sharply by May 2020 with average earnings falling by 1.5% compared with the same time last year. The local government non-teaching pay award for 2020/21 was recently agreed at 2.75%. This is in line with the Teachers pay award of 2.75% which was effective from 1 September 2019. Both the UK and Welsh Governments have announced pay increases of 2.75% for the majority of teachers but higher increase in the starting salary and the lower end of the pay scale. It is not known at this stage whether the Unions will again be pushing for higher than inflation salary increases in 2021/22 but, given the proposed rise in teachers' pay, it is likely that the Unions will push for a higher than inflation pay award.
- 3.7 Inflation is currently around 1% and is expected to increase slowly over the coming year returning back to around 2% by the end of 2021. However, the impact of the pandemic and Brexit could alter these forecasts considerably. A further lockdown could force prices down but a no deal Brexit could increase the cost of imported goods.
- 3.8 Interest rates are currently at 0.1%. Given the ongoing uncertainty surrounding the economic recovery, it is difficult to predict the change in interest rates over the coming months and there is the possibility of a negative interest rate in the near future. Whatever the shape of the economic recovery is, it is unlikely that there will be a major increase in interest rates in the medium term, when the Government will be trying to get the private sector to invest in order to create jobs and stimulate the economy.

- 3.9** Clearly the economic situation is very poor and, given the large number of unknowns, it is also very difficult to predict. The Prime Minister has made it clear that there will be no return to austerity and that the Government will invest in public infrastructure as a method to help the economy recover. If spending on public services is to be maintained or increased, it will require either increased borrowing or increased taxation and it is unclear whether this is a path that a Conservative Government wishes to follow.

4 WELSH GOVERNMENT BUDGET

- 4.1** Despite an increase in the Welsh Government's budget in 2020/21, the Welsh Government's budget is still around £300m lower in real terms than it was in 2010/11. Since 2009/10, the Welsh Government's budget has fallen by 5%, 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 22% (after allowing for inflation and transfers) and this figure increases to 35% if you exclude funding for schools.
- 4.2** In 2020/21, the grant funding for Local Government in Wales increased by 4.3% in cash terms, which is an increase of approximately 2.4% in real terms after allowing for inflation, compared to an increase in Welsh Government day to day spending of 4.1% in cash terms, 2.2% in real terms. Health and Social Care received a slightly higher increase of 4.57% in cash terms, 2.68% in real terms.
- 4.3** 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 was postponed given the issues surrounding Brexit and the General Election in December 2019. The new Conservative Government then intended to undertake the review in the summer of 2020, but again this has been cancelled as a result of the pandemic. It is, therefore, likely that the UK Government will provide a one year budget again in 2021/22, based on the 2020/21 budget.
- 4.4** At this stage it is, therefore, very difficult to predict what the Welsh Government budget will be for 2021/22, and how this budget will be allocated between the the two major elements of the budget, health and local government.

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 estimated that, in 2021/22, the total budget pressure faced by local government across Wales amounted to £518m and this would rise to £734m in 2022/23. Almost 60% of these figures relate to workforce pressures, with the remainder as a result of demography and general inflation.

i. Pay Increases

The non teaching pay rise for 2020/21 was recently agreed with a pay award of 2.75%. This figure is higher than the 2% allowed for in setting the 2020/21 budget. The additional cost above what was allowed for in the 2020/21 budget is £315k, however, the budget did include a contingency figure of £235k, therefore, only an additional £90k will be required to correct the under provision. Again, there is little detail on what the potential pay award will be in 2021/22 but it is likely that the Unions will be pushing for an above inflation pay award, particularly for staff in the care sector. Each 1% increase adds approximately £500k to the Council's non teaching pay budget. For the purposes of the MTFP, it is assumed that the pay award for each of the 3 years will be 2%.

ii. Teachers Pay Award

The teachers pay award is now set by the Welsh Government who announced that, from September 2020, teachers pay would increase by 2.75%, with higher increases in the starting salary and lower pay points. Forecasting the full effect of the pay award on the 2021/22 budget is difficult as the pay award is for the academic year and not the financial year and so the pay award for September 2021 will not be known until the summer of 2021. For the purposes of the plan, an assumption of 2% has again been made. Based on the announced rises and the assumptions made, teachers' pay costs will rise by approximately £830k in 2021/22 and around £600k in the following 2 years. Previously, the Welsh Government have funded the increase in teachers' pay in the settlement.

iii. Waste Collection Contract

Following a formal tendering process, the Council have agreed a new waste collection contract with its current contractor (Biffa). Under the terms of the new contract, the estimated contract value will increase by around £800k per annum to reflect the increased costs faced by Biffa, mainly staffing costs. In addition, the Council will fund the purchase of a new fleet of vehicles and equipment which will increase the Council's capital financing charges by around £500k per annum. As the change in contract costs is as a result of a local contract agreement, no specific additional funding will be received from the Welsh Government and the cost will have to be financed by savings and / or increases in Council Tax.

iv. I.T. Staffing Costs

The global pandemic has resulted in a change in the way the Council works, with more staff working from home and more services being delivered digitally. This change requires additional capacity to deliver and support the additional software but also to develop systems to allow more of the Council's services to be delivered digitally. An additional £250k has been allowed in the budget for 2021/22 onwards to fund this additional requirement.

v. Looked After Children

The number of children in care continues to rise across Wales and this increase has also occurred on Anglesey, with almost double the amount of children being looked after compared to 10 years ago. In 2019/20, the Council managed to maintain costs within budget following an additional £1.4m budget and initiatives to deliver more of the services on the Island, thereby reducing the need for specialist out of county placements. Despite the improvement in the budget position, it is prudent to allow for continued increases in the number of children placed. The plan, therefore, allows for an increase of 5% per annum above inflation. This equates to an additional cost of £275k per annum.

vi. Adult Social Care

The percentage of the population in Wales over 65 years of age continues to rise, with Wales being the 7th highest country in terms of percentage of population over 65 in the World. Anglesey has the third highest figure in Wales and its percentage of its residents who are over 65 now is in excess of 25% of the population.

In 2019/20, the Service overspent by £1.08m but the majority of this overspend was covered by the addition of £980k to the Service budget for 2020/21. However, the overspending was reduced through the receipt of additional grant funding from the Welsh Government, which cannot be guaranteed in future years.

The plan assumes a 1% increase in costs above inflation, which adds an additional £200k to budget pressures.

vii. 21st 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 for Band A schemes, but increases to a 65% contribution from Welsh Government for Band B schemes. Larger Band B schemes may also be funded through the Mutual Investment Model (MIM). 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 £550k by 2023/24, with additional MRP charges being incurred in 2024/25.

viii. 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 did not fall as anticipated. This created an overspend in 2019/20 which was corrected in the 2020/21 budget. However, the economic downturn following the pandemic is likely to drive up the caseload and it is unclear at this point if this increase will be funded by the Welsh Government. The plan allows for a 15% increase in the caseload in 2021/22 (compared to the 2020/21 budget figure), with the caseload returning to the pre-pandemic levels by 2023/24. This will increase the cost of the scheme by £900k in 2021/22. In addition, as Council Tax levels rise, then the cost of the reduction scheme also rises. Each 1% rise in Council Tax, creates an additional funding pressure of £60k.

ix. 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 MTFP 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 and depending on the agreed funding model.

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). 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.

xi. Pupil Numbers

The delegated school budget is revised each year to take account of the change in pupil numbers with the budget for the forthcoming financial year based on the actual pupil numbers, as at the previous September. It is forecast that primary pupil numbers will fall by 2.9% over the next three years, whilst secondary school pupil numbers will rise by 6.8% over the same period. Pupil numbers are also expected to continue to rise to the maximum capacity of 120 pupils. The net effect of these changes will require the delegated schools budget to increase by £325k in 2021/22 followed by increases of £167k and £120k in the following two years

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 any known changes and they will be finalised when the initial 2020/21 budget 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. It currently stands at 0.8% but could fall if a lockdown is re-imposed or increase should a no deal Brexit materialise. Over the longer term, it 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 £26.6m, 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 2021/22 – 2023/24

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 2021/22 to 2023/24. 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 2020/21. The estimated standstill budget for the next three year period is shown in Table 3 below:-

Table 3
Projected Standstill Budget 2021/22 to 2023/24

	2021/22 £'m	2022/23 £'m	2023/24 £'m
Previous Year Final Budget	142.146	148.205	151.402
One Off Costs and Contingencies falling out of the budget	0.079	0.027	0.064
Pay Inflation, Pension Costs and Incremental Drift	1.977	1.703	1.796
Main Council Contracts – Inflation and Volume Changes	0.975	0.314	0.320
Changes in Demand Led Services	1.444	1.203	1.018
Non Pay Inflation	0.424	0.586	0.599
Levies	0.072	0.073	0.075
Council Tax Reduction Scheme	0.919	(0.352)	(0.670)
Income Increases	(0.831)	(0.609)	(0.623)
Capital Financing Costs	1.000	0.252	0.430
Estimated Standstill Budget	148.205	151.402	154.411
Annual Increase	+ 6.059	+ 3.197	+ 3.009

7.2 The estimated standstill budget represents a cash increase of 8.6% 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.

7.4 The figures shown above take no account of the cost of dealing with the pandemic and delivering services which reduce the risk of transmission of the virus. If a solution to the virus is not found and social distancing and increased cleaning become the norm, then this will not only increase costs e.g. cleaning, reduced capacity on public and school transport, potential for increased sickness costs, but it will also impact on the Council's major sources of income from leisure centres, car parks etc.

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 £101.005m in Aggregate External Finance from the Welsh Government.

8.4 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%, followed by a 4.5% rise in 2020/21. The Council Tax premium percentages remained unchanged in 2020/21 i.e. 35% for 2nd homes and 100% for empty properties.

- 8.5 Table 4 below shows the additional income that various changes in AEF and increases in Council Tax would have on the Council's funding:-

Table 4
Impact on Council Funding for Changes in AEF and Council Tax 2021/22

		Change in AEF Cash Sum						
		- 2%	-1%	0%	+1%	+2%	+3%	+4%
		£'m						
Council Tax Rise (net of rise in CTRS)	0%	- 2.02	-1.01	0.00	+1.01	+2.02	+3.03	+4.04
	1%	-1.67	-0.60	+0.35	+1.36	+2.37	+3.38	+4.39
	2%	-1.32	-0.31	+0.70	+1.71	+2.72	+3.73	+4.74
	3%	-0.97	+0.04	+1.05	+2.06	+3.07	+4.08	+5.09
	4%	-0.62	+0.39	+1.40	+2.41	+3.42	+4.43	+5.44
	5%	-0.27	+0.74	+1.76	+2.76	+3.77	+4.78	+5.79
	6%	+0.08	+1.09	+2.10	+3.11	+4.12	+5.13	+6.14
	7%	+0.43	+1.44	+2.45	+3.46	+4.47	+5.48	+6.49
	8%	+0.78	+1.79	+2.80	+3.81	+4.82	+5.83	+6.84
	9%	+1.13	+2.14	+3.15	+4.16	+5.17	+6.18	+7.19
	10%	+1.48	+2.49	+3.50	+4.51	+5.52	+6.53	+7.54

9 BRIDGING THE FUNDING GAP

- 9.1 It can be seen from Table 4 that any reduction in the AEF in 2021/22 would require a significant rise in Council Tax to ensure that the level of funding in cash terms remains at least at the 2020/21 level (+3% if the AEF falls by 1% and +6% if the AEF falls by 2%).
- 9.2 In order to meet the required increased in the standstill budget in each year, Table 4 gives an indication of the level of increases in both the AEF and Council Tax required.

Table 5
Potential Increases in AEF and Council Tax Required to Fund the Increase in the Standstill Budget

	Increase in Standstill Budget £'m	Increase in AEF		Increase in Council Tax	
		%		%	
		Minimum	Maximum	Minimum	Maximum
2021/22	6.06	+3%	+4%	+6%	+9%
2022/23	3.20	0%	+3%	+1%	+10%
2023/24	3.00	0%	+3%	+0%	+9%

- 9.3 Therefore, for 2021/22 it would require AEF to rise by 3% and Council Tax by 9% to fund the increase in the Standstill Budget. If the AEF rises by 4%, then it would still require a rise of 6% in Council Tax to fund the increase.

9.4 It is very unlikely that the AEF will rise by at least 3% and, as a result this would require a rise in Council Tax in excess of 10% to fund the standstill budget of £148.2m. It is, therefore, necessary to find a level of savings in 2021/22 in order to balance the budget. For example, if there was no rise in the AEF and Council Tax was to rise by 5%, this would require savings of £4.3m (£6.06m - £1.76m) and £1.4m in 2022/23 and £1.2m in 2023/24. This is equivalent to a 3% level of savings in 2021/22 and 0.8% in 2022/23 and 2023/24.

9.5 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 - £3.59m in 2020/21;
Capital Financing Costs - £6.94m in 2020/21;
Council Tax Reduction Scheme - £6.13m in 2020/21;
Historic Pension Costs - £1.02m in 2020/21;
Pension Deficit Annual Payment - £0.67m in 2020/21
General and Specific Contingencies - £0.76m in 2020/21.

It will, therefore, be necessary to find the required savings of £6.9m over 3 years (assuming no increase in AEF and an annual 5% increase in Council Tax) from service budgets, totalling £123.03m (2020/21 budget). This equates to savings of 5.4% over 3 years.

9.6 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.

9.7 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 and Adult Services.

9.8 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

9.9 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.

9.10 The Council has commenced programmes of work to modernise services and deliver them at a lower cost, e.g. the school modernisation programme, provision of social care day services, but these processes take time to complete and have met with resistance from the public and service users. It is unlikely that following the strategy to date will achieve the level of savings required should the local government settlement be poor with little or no growth in cash terms. To achieve a balanced budget, difficult decisions will have 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 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 Medium Term Financial Plan generates an estimated standstill budget for the next 3 years based on a number of assumptions, but the current pandemic and the ongoing impact it has on the costs of providing services and on income levels does impact on the robustness of those assumptions. This, combined with the lack of information on the future funding of Local Government in Wales, makes an accurate forecast very difficult.

10.2 Even if the Welsh Government releases additional funds for local government, it is unlikely that any increase will be sufficient to fund the estimated standstill budget, particularly in 2021/22. As a result, a level of budget savings will be required in order to set a balanced budget. The level of those savings will be dependent on how good or bad the local government settlement will be and how high Members are willing to set the rise in Council Tax

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

Revenue Expenditure	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000
Delegated Schools Budgets				
Teachers Pay	21,398,700	21,999,104	22,474,180	22,958,619
Non Teaching Pay	5,990,150	6,165,609	6,298,757	6,434,529
Teachers National Insurance	2,236,630	2,299,385	2,349,041	2,399,675
Non Teaching National Insurance	294,710	302,979	309,522	316,194
Teachers Pensions	5,057,380	5,199,280	5,311,560	5,426,052
Non Teaching Pensions	1,133,950	1,167,165	1,192,370	1,218,072
Energy	854,560	875,924	902,202	929,268
NDR	826,510	847,173	872,588	898,766
Building & Plant Repair and Maintenance	459,080	465,966	475,286	484,791
Grounds Maintenance	170,640	174,906	180,153	185,558
Other non staff related expenditure	3,605,620	3,659,704	3,732,898	3,807,556
Grants and Other Contributions	- 1,391,700	- 1,433,451	- 1,476,455	- 1,520,748
Non Statutory Income	- 27,860	- 29,253	- 30,716	- 31,330
Pupil Number Adjustment	-	325,258	492,049	611,902
Funded by Education Reserves	- 15,270	-	-	-
Total Delegated Schools Budgets	40,593,100	42,019,748	43,083,436	44,118,904
Non School Staffing Costs				
Teachers Pay	587,730	604,220	617,269	630,574
Non Teaching Pay	32,951,407	33,916,596	34,904,433	35,656,810
Teachers National Insurance	74,450	76,631	78,286	79,973
Non Teaching National Insurance	2,981,060	3,068,379	3,134,642	3,202,210
Teachers Pensions	132,760	136,485	139,432	142,438
Superannuation Pension Contributions	6,186,318	6,367,523	6,505,032	6,645,250
Car & Subsistence Allowances	631,240	568,116	511,304	511,304
Pension Deficit Lump Sum Payment	666,810	666,810	666,810	666,810
Historic Pension Costs	1,024,920	999,037	973,808	949,216
Other Staff Costs	820,530	832,838	849,495	866,485
Apprenticeship Levy	346,770	356,927	364,635	372,495
Total Staffing Costs	46,403,995	47,593,563	48,745,145	49,723,564
One Off Costs				
Stem (3 years 2019/20 to 2021/22)	37,500	37,500	-	-
Pay Award Contingency (transferred into staffing costs from 21/22 onwards)	235,030	-	-	-
I.T. Staffing Increase (transferred into the staffing costs from 22/23 onwards)	-	250,000	-	-
Regional Growth Bid - Interest Costs	-	64,000	128,000	192,000
Regional Growth Bid - Project Board and Accountable Body Costs	50,000	50,000	50,000	50,000
Total One Off Costs	322,530	401,500	178,000	242,000
Main Council Contracts				
Refuse Collection	4,221,490	5,032,016	5,132,656	5,235,310
Refuse Disposal	1,313,100	1,313,100	1,313,100	1,313,100
Highway Maintenance	4,589,240	4,681,025	4,774,645	4,870,138
School Meals	2,299,680	2,299,680	2,345,674	2,392,587
School Transport	2,855,690	2,912,804	2,971,060	3,030,481
Public Service Bus Contracts	760,850	776,067	791,588	807,420
Total Main Council Contracts	16,040,050	17,014,692	17,328,724	17,649,036
Joint Services with other Local Authorities				
GwE	403,480	409,532	417,723	426,077
Anglesey / Gwynedd ALN Strategy	1,743,240	1,769,389	1,804,776	1,840,872
Ynys Môn Gwynedd Partnership	179,580	179,580	179,580	179,580
Planning Policy Unit	225,540	228,923	233,502	238,172
Regional Emergency Planning	67,230	68,238	69,603	70,995
Total Joint Services with Other Local Authorities	2,619,070	2,655,662	2,705,184	2,755,696

Revenue Expenditure	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000
Other Demand Led Services				
Children's Placements	5,458,330	5,813,121	6,220,040	6,468,842
Elderly Service Provision	9,715,190	9,958,070	10,256,812	10,564,516
Physical Disability Service Provision	1,231,980	1,262,780	1,300,663	1,339,683
Learning Disability Service Provision	3,276,930	3,358,853	3,459,619	3,563,407
Mental Health Service Provision	1,528,970	1,567,194	1,614,210	1,662,636
Supported Living	2,621,520	2,687,058	2,767,670	2,850,700
Out County School Placements	1,397,240	1,446,143	1,503,989	1,564,149
Supporting People	37,300	37,860	38,617	39,389
Homelessness	147,830	153,004	159,124	165,489
Total Demand Led Services	25,415,290	26,284,083	27,320,743	28,218,811
Other Council Expenditure				
NDR	1,042,800	1,068,870	1,100,936	1,133,964
Energy	1,046,540	1,072,704	1,104,885	1,138,031
Premises Costs Non Schools	1,921,510	1,950,333	1,989,339	2,029,126
Transport Costs	72,420	73,506	74,976	76,476
Supplies and Services	16,470,280	16,717,334	17,051,681	17,392,715
Members Allowances	757,200	778,137	793,699	809,573
Fire Service Levy	3,593,260	3,665,125	3,738,428	3,813,196
Other Levies	5,240	5,240	5,240	5,240
Council Tax Reduction Scheme	6,128,110	7,047,327	6,694,960	6,025,464
HRA Recharge	- 1,388,450	- 1,426,841	- 1,455,377	- 1,484,485
Contingencies	742,770	753,912	768,990	784,370
NDR Discretionary Rate Relief	70,000	70,000	70,000	70,000
Capital Financing Costs - MRP	2,743,750	3,349,400	3,346,580	3,512,360
Capital Financing Costs - Interest	4,195,350	4,589,953	4,844,933	5,108,761
Total Other Council Expenditure	37,400,780	39,714,998	40,129,269	40,414,791
TOTAL GROSS EXPENDITURE	168,794,815	175,684,247	179,490,501	183,122,803
Income				
Grants / Public Bodies Reimbursements	- 10,673,060	- 10,833,156	- 11,049,819	- 11,270,815
Statutory Income	- 10,574,229	- 10,732,842	- 10,947,499	- 11,166,449
Non Statutory Income	- 5,401,206	- 5,913,242	- 6,090,639	- 6,273,359
Total Income	- 26,648,495	- 27,479,241	- 28,087,958	- 28,710,623
TOTAL NET EXPENDITURE	142,146,320	148,205,006	151,402,543	154,412,179

MEDIUM TERM FINANCIAL PLAN ASSUMPTIONS

	2021/22	2022/23	2023/24
Teachers Pay Award	2.6%	2.0%	2.0%
Teachers Pension	0.0%	0.0%	0.0%
NI Rates	0.0%	0.0%	0.0%
Non Teaching Pay Award	2.8%	2.0%	2.0%
Non Teaching Pension	0.0%	0.0%	0.0%
Historic Pension Costs	-2.5%	-2.5%	-2.5%
Incremental Drift	0.2%	0.2%	0.2%
Car Allowance Inflation	-10.0%	-10.0%	0.0%
CPI	1.5%	2.0%	2.0%
RPI	2.5%	3.0%	3.0%
Energy Inflation	2.5%	3.0%	3.0%
Non Statutory Income	3.0%	3.0%	3.0%
Children's Placement Caseload	5.0%	5.0%	2.0%
Out of County School Placements	2.0%	2.0%	2.0%
Homelessness Caseload	2.0%	2.0%	2.0%
Refuse Disposal Tonnage	-2.0%	-2.0%	-2.0%
CTRS Caseload	15.0%	-5.0%	-10.0%
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)	19.2%	2.0%	2.0%
Refuse Disposal (including inflation)	2.0%	2.0%	2.0%
Highway Maintenance (including inflation)	2.0%	2.0%	2.0%
School Meals (including inflation)	0.0%	2.0%	2.0%
School Transport (including inflation)	2.0%	2.0%	2.0%
Public Service Bus Contracts (including inflation)	2.0%	2.0%	2.0%
Elderly Service Provision (in addition to inflation)	1.0%	1.0%	1.0%
Physical Disabilities Service Provision (in addition to inflation)	1.0%	1.0%	1.0%
Learning Disabilities Service Provision (in addition to inflation)	1.0%	1.0%	1.0%
Mental Health Service Provision (in addition to inflation)	1.0%	1.0%	1.0%