

Isle of Anglesey County Council	
Report to:	Executive
Date:	27 September 2021
Subject:	Medium Term Financial Plan 2022/23 – 2024/25
Portfolio Holder(s):	Cllr Robin W. Williams – Portfolio Holder for Finance
Head of Service / Director:	Marc Jones – Director of Function (Resources) / Section 151 Officer
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Local Members:	Not applicable
A –Recommendation/s and reason/s	
<p>Recommendations</p> <p>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 (MTFP). 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.</p> <p>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 as part of the process to set the 2022/23 revenue budget.</p> <p>The detailed report is attached as Appendix 1.</p>	
B – What other options did you consider and why did you reject them and/or opt for this option?	
<p>The Medium Term Financial Plan is based on a number of assumptions, which are based on the best available information. Therefore, no other options are considered.</p>	
C – Why is this a decision for the Executive?	
<p>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.</p>	
Ch – Is this decision consistent with policy approved by the full Council?	
<p>Yes as per paragraph 4.3.2.2.1 of the Council's Constitution.</p>	
D – Is this decision within the budget approved by the Council?	
<p>The decision, although impacting on the budget for 2022/23, will not result in the incurring of any additional costs or generate any additional income in the 2021/22 financial year. As a result, the decision will not impact on the budget approved by the Council for 2021/22.</p>	

Dd – Assessing the potential impact (if relevant):		
1	How does this decision impact on our long term needs as an Island?	The MTFP sets out the financial position for the Council over the next 3 financial years. This impacts on the level of services which the Council can provide to meet the needs of the Island and its residents.
2	Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority? If so, how?	Setting out and agreeing the medium term financial position allows the Council to plan for the cost of future services. Good financial planning will allow for the avoidance of unnecessary future costs.
3	Have we been working collaboratively with other organisations to come to this decision? If so, please advise whom.	<p>The Council, along with the other 21 Welsh Local Authorities and the Welsh Local Government Association have set out the financial position across Wales to Welsh Government.</p> <p>The Council also works closely with the other 5 North Wales authorities on the detailed assumptions used in the plan.</p>
4	Have Anglesey citizens played a part in drafting this way forward, including those directly affected by the decision? Please explain how.	The annual revenue and capital budgets are subject to a public consultation process. The outcome of the Consultation is considered by the Executive before it makes its final budget proposal to the full Council in March each year.
5	Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.	The MTFP makes no spending decisions. Any spending decisions would form part of the annual budget and individual proposals would be assessed on their impact on groups protected by the Equality Act 2010 at that point.
6	If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.	The MTFP makes no spending decisions. Any spending decisions would form part of the annual budget and individual proposals would be assessed on their impact on those experiencing socio-economic disadvantage at that point.
7	Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.	No impact
E – Who did you consult?		What did they say?
1	Chief Executive / Senior Leadership Team (SLT) (mandatory)	The report was considered by the SLT at its meeting on 6 September 2021. Comments from the Chief Executive and the other members of the SLT were incorporated into the final draft.
2	Finance / Section 151(mandatory)	The Section 151 Officer is the report author
3	Legal / Monitoring Officer (mandatory)	The Monitoring Officer is a member of the SLT
4	Human Resources (HR)	Not applicable
5	Property	Not applicable
6	Information Communication Technology (ICT)	Not applicable
7	Procurement	Not applicable
8	Scrutiny	
9	Local Members	

F - Appendices
Appendix 1 – Detailed Report on the Medium Term Financial Plan Appendix 2 – MTFP Assumptions Appendix 3 - Estimated Net Revenue Budget 2022/23 – 2024/25
Ff - Background papers (please contact the author of the Report for any further information):

1. INTRODUCTION AND BACKGROUND

- 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 drawn up during a continued period of economic uncertainty. Despite the fact that the Covid lockdown period has come to an end, it is still unclear what impact it has had on the UK's economy and how quickly the economy will return to its pre-pandemic levels. The UK may have left the European Union, but it will take a number of years for the impact of Brexit on the UK economy in the long term to be assessed. Both are major events which will impact on future levels of public expenditure.
- 1.3. A comprehensive spending review has been planned by the UK Government for two to three years, but has yet to be fully completed. This, in turn, impacts on the Welsh Government's ability to provide Welsh local authorities with an indication on the level of potential funding over the next 3 years. It is anticipated that Welsh Government will, once again, only provide the local authorities with the financial settlement for the forthcoming year when it announces its provisional settlement later in the year.
- 1.4. Once again the provisional settlement is not expected to be announced by Welsh Government until late December 2021, with the final settlement not being published until early March 2022. This makes it extremely difficult to determine what any potential funding gap will be for 2022/23 and beyond.
- 1.5. The Medium Term Financial Plan takes account of all known changes that are required to be built into the 2022/23 base budget, and makes assumptions on the main factors that impact on the Council's revenue budget (pay costs, pensions, general inflation, Welsh Government funding, demographic and demand pressures).

2. THE COUNCIL'S CURRENT FINANCIAL POSITION

- 2.1. In March 2021, the Council set the following budget:-

Table 1
2021/22 Revenue Budget

	£'m
2020/21 Final Net Revenue Budget	142.146
Contractual and Other Committed Changes	2.642
Pay and Price Inflation	2.087
Transfer of Grants and New Responsibilities into the Settlement	0.090
Budget Pressures	0.455
Budget Savings	0.000
2021/22 Final Net Revenue Budget	147.420
Funded By:	
Aggregate External Finance	104.825
Council Tax (including Premium)	42.295
Reserves	0.300
Total Funding 2021/22	147.420

- 2.2.** The Aggregate External Finance (AEF) increased by 3.41% (after adjusting for the change in the taxbase and grants transferred into the settlement). The Council Tax debit increased by 2.8%. The Band D charge increased by 2.75%, with the remainder of the increase in Council Tax debit as a result of the change in the taxbase.
- 2.3.** 2020/21 could not be considered as a normal operating year, with Council services reduced during the year, additional costs being incurred and income being lost. The Welsh Government provided significant additional funding to all local authorities, with Anglesey receiving £6.035m to cover additional costs, and £2.311m to cover lost income.
- 2.4.** At the end of the 2020/21 financial year, the Council reported a net underspend of £4.204m (2.85%), with all Services reporting an underspend against their budget. This resulted in an increase in the Council's general balances to £11.593m, which is equivalent to 7.86% of the 2021/22 net revenue budget. This compares to the target figure of £7.37m (5%) which was approved by the Executive.
- 2.5.** As the pandemic eases and services begin to return to normal during 2021/22, there is a significant risk that the demand for services increases during 2021/22. This can be due to a pent up demand for services being released in 2021/22, or that the reduction in services during 2020/21 has generated issues and problems which could lead to higher demand, particularly in Social Services. In order to mitigate this risk of a potential overspend, the Executive agreed that the minimum level of general balances should be increased to £9m for 2021/22.
- 2.6.** 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 £14.079m at 31 March 2021, an increase of £5.319m during the year. The majority of the rise can be accounted for by £2.277m of additional unhypothecated Welsh Government funding, which was provided to help Councils to meet the cost of undelivered revenue savings, potential increased losses in Council Tax income, delivering on digital transformation and to cover the costs of making grant payments on behalf of Welsh Government. £0.522m relates to specific grant funding which was received late in 2020/21 and will be spent in 2021/22. £0.625m relates to a contribution received from a Developer which the Council will use to fund works in 2021/22.
- 2.7.** School Balances also rose significantly during 2020/21, rising from £0.197m to £4.016m. This was, in part, due to the fact that schools were closed or partly closed during a large part of 2020/21 and also as a result of additional grant funding from Welsh Government, which was received late in 2020/21 but will not be spent until 2021/22. As schools begin the process of recovering from the pandemic, it is anticipated that these balances will fall significantly during 2021/22.
- 2.8.** For the first time in over a decade, it was not necessary to include any revenue budget savings in order to balance the Council's revenue budget for 2021/22. This was, in part, due to the fact that the AEF rose by £3.46m (3.4%), to £104.825m which, along with the 2.75% increase in Council Tax, was sufficient to achieve a balanced budget. However, it should be noted that the AEF for 2021/22 was only £4.6m higher than the AEF the Council received in 2013/14. Had the AEF risen by 2% per annum since 2013/14, and after taken into account of funding for new responsibilities and grants that have transferred into the settlement, the AEF would have been around £123.5m.

- 2.9.** Since 2013/14, the Council has implemented a total of £24.616m savings across all services. These have been achieved by making efficiency savings, reducing staffing levels, outsourcing services, stopping some non statutory services and increasing fees and charges above inflation. It is now becoming increasingly difficult to continue to find efficiency savings and the staffing levels in some services are at the minimum. If future savings are required, they will only be achievable by cutting services or modernising the way services are delivered.

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 £2.2 trillion, which is 98.8% of the country's GDP. During 2020/21, the Government borrowed £298bn, which is 14.2% of GDP, this is the highest borrowing in any financial year since World War 2. For 2021/22, borrowing already has reached over £70bn.
- 3.3.** As the pandemic eases and the restrictions are taken away, the economy has started to recover, but the recovery has been slowed due to staffing shortages as a result of Brexit and the need for people to self isolate.
- 3.4.** As the economy reopened and people started spending money in shops, inflation (Consumer Prices Index) began to rise, reaching 2.5% in June 2021, but has now started to fall back, down to 2% in July. Short term shortages of some goods, along with increases in fuel and energy prices, are expected to push up inflation during the remainder of 2021, possibly reaching 4% by the end of 2021, before falling back in 2022.
- 3.5.** The Bank of England base rate was cut to 0.1% in March 2020, and has remained at this very low level since then. Despite inflation expected to exceed the target rate of 2%, the Bank of England's Monetary Policy Committee (MPC) is not expected to increase rates in the foreseeable future, with potentially no change until mid 2024.
- 3.6.** Assessing how well the economy will recover over the coming months is difficult. If the number of Covid cases increases rapidly with larger numbers requiring hospital treatment, then there may be a need to re-introduce restrictions, which could have a significant impact on the recovery. Although the Brexit process has been completed and the UK has left the European Union, the impact of Brexit are continuing and could again worsen should there be disagreements on the implementation or operation of the Withdrawal Agreement.
- 3.7.** The Government is also under increasing pressure to reward the key public sector workers through higher than inflation pay awards e.g NHS staff will receive a 3% pay award. Staffing is the major cost in the public sector and higher than inflation pay awards does have a significant impact on the cost of the public sector and must be funded by the Government i.e. cutting other budgets, increasing taxes or increasing borrowing.

- 3.8.** In the short term, the Government may continue with its policy of funding additional expenditure through increased borrowing but, once the impact of the pandemic has reduced and the issues surrounding Brexit are resolved, the Government will be in a better position to take a long term view on the state of the economy and how the level of borrowing can be reduced. This may be through generating more income through taxation, but it is likely that cuts in public expenditure will be part of the strategy. Prior to the pandemic, it was the strategy of the Conservative Government to eliminate the deficit and begin to reduce the level of debt as a percentage of GDP. It is unlikely that the Conservative Government will change this policy in the medium to long term and, given they are not normally a Government which likes to increase taxation levels, their only option to begin to reduce debt will be to reduce public expenditure. However, the recent announcement on the increase in employee and employer national insurance contributions may indicate a change in Government policy and that tax rises are now considered part of the solution to eliminate the deficit and to reduce the level of debt.
- 3.9.** If the UK government does decide to reduce the level of public expenditure in England, it will result in a reduction in the funding that Wales receives through the Barnett formula. It will be a decision for the Welsh Government as to how much of the reduction is passed on to Local Government in Wales.

4. FUNDING FROM WELSH GOVERNMENT

- 4.1.** Funding of Local Government in Wales has changed significantly over the past decade. Wales Fiscal Analysis have calculated that the value of Welsh Government grants to local government has fallen by 16.8% in real terms, whilst funding from Council Tax and Business Rates has increased by 39.3% and 5.8% respectively. This has meant that, in overall terms, local government expenditure in Wales has fallen by 6% over the period.
- 4.2.** Over the period, expenditure on Social Services has increased by 20% in real terms, but all other services have seen real term reductions in expenditure, with Culture and Recreation services seeing cuts of over 40% and Planning and Development services seeing cuts of over 50%.
- 4.3.** The Welsh Government's budget for 2021/22 rose by 4.6% compared to 2020/21 (excluding the additional funding to meet the costs of dealing with Covid).
- 4.4.** Wales Fiscal Analysis have assessed two scenarios and considered their impact on the level of Aggregate External Finance. The first scenario is based on current UK Government spending plans and the second is based on the UK Government's pre pandemic plans. Under scenario 1, AEF and other specific grants are estimated to grow by 0.9% in 2022/23, followed by increases of 2.6% in 2023/24 and 2.9% in 2024/25. Under scenario 2, the growth is estimated to be 4.3% in 2022/23, followed by increases of 3.3% and 3.2% in the subsequent two years.
- 4.5.** The figures from Wales Fiscal Analysis shows the potential impact that dealing with the pandemic will have on the Welsh Government's budget, but it should be noted that the position may have changed again since their analysis was published in April 2021. Their analysis is dependant on Welsh Government increasing the AEF in line with the anticipated growth in the Welsh budget. However, there is a significant funding gap between the consequential sums that the Welsh Government will receive as a result of increased NHS spending in England and the sums needed to deal with the post pandemic NHS backlog and new demands on the NHS. Wales Fiscal Analysis estimate that the funding gap is £740m in 2022/23 and £360m thereafter. Therefore, Welsh Government will be under considerable pressure to direct additional resources to the NHS in Wales and this will invariably lead to reductions in funding for Local Government.

5. NATIONAL AND LOCAL BUDGET PRESSURES

5.1. Local Government generally is facing a number of budget pressures, particularly in Social Care, but also in dealing with Covid on a long term basis. Wales Fiscal Analysis estimate that the budget pressures faced by local authorities in Wales ranges from £575m to £1,182m in 2022/23 and then increase by between £200m and £300m annually thereafter.

5.2. The following areas are considered the main budget pressures facing the Council over the term of this plan:-

i. **Pay Increases – Non Teaching Pay**

The non teaching pay award is set across England and Wales based on an agreement between the Employers and the Unions. For 2021/22, the current offer is an increase of 1.75%. In setting the 2021/22 budget, an increase of 1% was allowed for. The additional 0.75% will increase the non teaching pay expenditure by approximately £375k. Funding has been identified to meet this additional cost in 2021/22, but it will require an increase in the base budget for 2022/23. For the purposes of the plan, it is assumed that the subsequent pay awards for each of the 3 years of the plan are 2%. This adds just over £1m to the annual pay bill.

ii. **Pay Increases – Teachers Pay**

Teachers pay is set by the Welsh Government, with the pay award being effective from September each year. As with the non teaching pay, the pay award has been set at 1.75%, which is 0.75% above the sum provided for in the 2021/22 budget. This increases the costs in 2021/22 by £135k, although, as the increase is as a consequence of a decision taken by the Welsh Government, they provide additional grant funding to meet the cost and then include the grant in any future settlements. The full year effect of the additional pay award is £230k. The plan allows for a 2% increase in each of the 3 years of the plan, which increases the expenditure by just over £500k per annum.

iii. **National Insurance**

The UK Government has announced its intention to increase national insurance contributions for both employees and employers by 1.25% to fund the increasing cost of social care. This takes the employer contributions from their current level of 13.8% to 15.05%, an increase of just over 9%. Therefore, this proposal, along with the pay award, increases the annual national insurance cost for the Council by £685k. Any increase in the employees' tax burden will also put pressure on pay rises as Unions seek to make up for any income lost to tax through higher pay awards. It is too early to say at this point what impact the proposed increase in national insurance will have on future pay awards.

iv. **Major Service Contracts**

A number of the Council's Services are outsourced, including refuse collection and disposal, highway maintenance, school meals, the majority of the homecare service, school transport and public service bus contracts. The majority of the contracts are long term agreements which will end after the end of the period covered by this plan. The school meals contract came into operation from 1 September 2021 and will result in savings of around £300k. The budget for 2022/23 onwards will be adjusted accordingly.

v. Elderly Nursing, EMI and Residential Care Home Fees

For a number of years, the annual fee increase for nursing, EMI and residential care home fees have been determined using a standard tool kit which all 6 North Wales authorities use as the basis for their fee increase. However, in 2020, the Welsh Government provided funding to increase these fees on a temporary basis by £50 per bed per week. The increase allowed homes to fund the increased costs arising from Covid. The additional funding remains in place for 2021/22, although it begins to taper down from October 2021 onwards. There will be significant pressure from the Care Home sector for the Council to maintain this higher fee level. It is unclear at this point whether the Welsh Government will be willing to fund all or part of these costs through an uplift to the settlement. It is estimated that the full year cost of the increase is £750k.

vi. Real Living Wage to Care Provider Staff

The National Living wage is the statutory minimum which an employer must pay (currently £8.72 per hour for over 25s). The Real Living wage is determined by the Living Wage Foundation and is their assessment of the minimum that people require to meet their living costs. This is currently £9.50 per hour i.e. £0.78 per hour above the National Living wage. Although the Council pays above the real living wage, the majority of the Council's external care providers pay less than the real living wage. In light of the pandemic, there is pressure to reward care staff better by increasing the pay they receive up to the Real Living wage. In order for care providers to do this, it would require the Council to increase the fees that it pays to care homes, supported accommodation providers and homecare providers. It is estimated that this would increase the Council's costs by £340k per annum.

vii. Children's Services

The Council has made significant progress in recent years to bring the cost of its Children's Services within its budget. Although additional investment has been made into the Service, the average cost of a placement has fallen due to the increased recruitment of foster carers and the opening of Carterfi Clyd. This has reduced the need for children to be placed in expensive out of county placements. During the lockdown period, the number of referrals from other agencies and schools fell, however, it is anticipated that the numbers of children entering care will begin to increase in 2021 and beyond. The plan allows for a 5% increase in the budget above inflation in 2022/23, which adds £560k to the budget.

viii. Adult Social Care Services

As with Children's Services, there is a significant risk that the demand for Adult Social Care services (elderly, mental health, learning disability etc.) will increase as we come out of the pandemic. A 5% increase in demand has been allowed for in 2022/23, which will increase costs by approximately £500k. This is in addition to any inflationary rise in costs.

ix. Out of County School Placements

As part of the 2019/20 revenue budget, an additional £202k was allocated to this budget to meet the rising costs of placements and the increased demand. As the Children's Services team has succeeded in placing children with care providers on Anglesey, the need for out of county placements has reduced, which also has resulted in a lower number of educational out of county placements. Although 2020/21 was not a representative year because of Covid, the budget underspent by £750k. There is a projected underspend for 2021/22, but not to the same level, however, there is still scope to reduce the budget by £400k. It should, however, be noted that the number of out of county placements can increase quickly if children come into the county who's needs cannot be catered for by the education provision provided on the Island and, as a result, there may be a need to increase this budget again in the future.

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 falls on the taxpayers of Anglesey. Despite the pandemic, we have yet to see significant increases in the numbers applying for assistance through the scheme. However, as the furlough scheme comes to an end and businesses try and return to normal trading, there is a risk that businesses may begin to fail and unemployment will increase. Recent estimates show that the level of job losses is likely to be lower than was previously estimated, but the plan allows for a 5% increase in the caseload in 2022/23 and then falls back to the 2021/22 level over the subsequent 2 years. A 5% increase in the caseload adds around £300k to the required budget. In addition, each 1% increase in the level of Council Tax, increases the costs by a further £60k.

xi. Capital Financing Charges

In addition to interest payments on existing and new loans, the Council is required to make a provision in respect of future loan repayments (known as Minimum Revenue Provision or MRP). MRP is determined in line with the MRP Policy, which has been approved by the Council. Normally, capital expenditure requires some level of additional borrowing and, as the level of borrowing increases, the provision required under the MRP policy and associated interest also increases. This has been factored into the MTFP to take into account the level of supported borrowing which is allowed for in the funding settlement and the Council's planned expenditure on new schools at Ysgol Cornhir and Ysgol Y Graig.

However it should be noted that the cost of building works has increased since the easing of the lockdown, with a shortage of materials and labour forcing up prices. These increase may be short term and costs may begin to reduce in 2022 but, if this does not happen, then the cost of capital projects will increase which may result in additional borrowing, which will then result in an increase in the capital financing costs. Given the current uncertainty, no allowance has been made for this potential risk in the current plan.

xii. Changing Working Practices

It is likely that the Council will never return to the pre-pandemic way of working, with office based staff attending the office 5 days a week and meetings taking place on a face to face basis. There will have to be an investment, over a number of months, in both hardware and software, to ensure that staff and Members can attend meetings on a hybrid basis (a mix of physical attendance and remote attendance), but this will also provide an opportunity for revenue savings. It is estimated that the reduction in attending local, regional and national meetings will result in around £110k of savings. Increased home working will result in savings on office expenses (paper, photocopying, postage, telephones) estimated to be around £85k and there will also be a saving on electricity costs of around £10k. These potential savings have been factored into the plan.

xiii. Committed Changes and One Off Costs

Decisions taken in the current financial year may set an ongoing budget requirement and, in addition, other changes may take place which require additional funding or funding on a one off basis.

The local council elections will take place in May 2022, and one off funding of £200k will be required to fund the costs of holding the election. In addition, the election will result in the number of Members increasing from 30 to 35. Each of the 5 additional Members will be paid the standard Members Allowance, which increases the Members Allowance budget by £75k.

Annually, an adjustment is made to reflect changes in pupil numbers. In previous years, this figure has been significant due to a shift in pupils from the primary sector to the secondary sector and an increase in pupils at Canolfan Addysg y Bont (CAYB). From 2022/23, the shift in pupil numbers from the primary to the secondary sector will slow and, also, CAYB is now close to capacity. As a result, no significant additional funding is required as a result of changes in pupil numbers.

No other significant committed changes (i.e. costs which the Council are contractually obliged to fund or which are required to maintain the service to the current level) have been identified at this point, but this may change as the detailed budget preparation work is undertaken.

The need to set up a Performance Assessment Panel as a result of the new Local Government and Elections (Wales) Act 2021, will result in additional costs for the Council. It is estimated that the cost will be £35k per annum, but this may be funded by the Welsh Government through the AEF.

xiv. Other Budget Increases

As part of the budget preparation process, service review meetings have taken place between Members and Officers to discuss potential areas where budgets may need to be increased to meet changes in the level of services that have to be delivered.

The Executive has already made decisions on a number of requests, which will add additional costs to the ongoing revenue budget amounting to £344k.

Further discussions will take place as part of the 2022/23 budget setting process as to whether additional investment is necessary in some of the Council's support services and performance management processes. There is also consideration being given to employing a further cohort of trainee staff as part of the Council's workforce development strategy. Currently, the potential additional costs amount to £439k.

The Property Service are currently in the process of drafting the Council's Asset Management Strategy for the next 5 years which will outline the Council's needs in terms of buildings to provide services into the future and the investment required to maintain those buildings. Although the majority of the investment required will be funded from the capital budget it is also likely that the annual repairs and maintenance revenue budget will have to be increased. An assumption has been made in this plan that an additional £100k per annum will be required in order to ensure that the Council's buildings remain fit for purpose and that their condition do not deteriorate significantly.

xv. General Price Inflation

Annual non pay budgets are inflated each year to take account of general or specific inflation. Where contracts do not specify a specific price index that should be applied, or where a specific expenditure heading is not seeing a significantly higher or lower inflation rate, then the Consumer Prices Index (CPI) is used as the inflation factor. CPI is currently 2% and is expected to increase in the short term, but the long term view is that CPI will remain at or around 2%. Based on this assumption, non pay inflation will increase the annual budget by around £1.5m per annum.

6. INCOME

- 6.1.** The Council's current income budget (excluding AEF, Council Tax and specific grant funding) amounts to £22.6m. This 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 to increase the discretionary fees and charges by 3% per annum, although, in some services, increasing the fees and charges by more than inflation has resulted in the Council's fees getting significantly closer to the fees charged by the private sector e.g leisure services. For the purposes of this plan, it has been assumed that the discretionary fees and charges will continue to rise by 3% per annum over the life of the plan. The statutory fees and charges are assumed to increase by CPI.
- 6.3.** In 2020/21, the Council introduced a charge for the collection of green garden waste. The estimate was that 10,000 people would subscribe to the service and this would generate £350k in additional income. In reality, approximately 15,400 have subscribed for the service, generating an additional £216k. However, it is anticipated that some may choose not to take the service in the second year, and an assumption has been made that 14,000 will take up the service in 2022/23. This additional income has been factored into the plan.
- 6.4.** In addition to income from fees and charges a significant amount of grant income is received. The grants received can be to fund specific projects or services, but others are more general in nature and support core services. Given the uncertain position regarding public sector funding, there is a risk that grants are targeted and reduced in order to reduce public spending, rather than a reduction in the general financial settlement the Council receives from Welsh Government. Where grants fund specific projects, then it is possible to bring the project to an end if the grant ends, but this is more difficult where services are provided through a mix of core budget and grants.
- 6.5.** Assessments are currently being undertaken as to whether the Council could become the Port Health Authority for the port of Holyhead. This may provide the Council with the opportunity to generate additional net revenues. It is too early to say whether this is possible, but it is likely that, initially, that a breakeven position would be the likely outcome, with income being sufficient to meet running costs. As a result, no allowance has been made for this potential additional income in the plan.
- 6.6.** Over the period of the pandemic, the Council has experienced a loss of income, in particular in Leisure Services and in town centre car parking income. These losses have been covered by additional grant funding from Welsh Government, with £315k claimed for the income lost during the first quarter of 2021/22. Although the loss during quarter 2 should be significantly less, there is a risk that some services may not be able to return to the pre-pandemic capacity or that the level of service users is reduced. Given this, there is a potential for a long term reduction in income. It is too early to estimate the long term impact and, as such, no allowance has been made for this in the plan.

7. PROJECTED BUDGET FOR 2022/23 – 2024/25

- 7.1.** By taking into account all of the issues detailed in paragraph 5 and 6, and using the assumptions set out in Appendix 2, it is possible to estimate the revenue budget for the following 3 years, and this is set out in Table 2 below:-

Table 2
Projected Net Revenue Expenditure Budget 2022/23 to 2024/25

	2022/23 £'m	2023/24 £'m	2024/25 £'m
Previous Year Final Budget	147.420	153.987	157.178
Non Teaching Pay Award	1.329	1.086	1.107
Teaching Pay Award	0.499	0.687	0.701
Increase in National Insurance Contributions	0.681	0.000	0.000
Major Service Contracts	(0.103)	0.324	0.330
Social Care National Funding Pressures	1.092	0.000	0.000
Children's Services Demand	0.560	0.125	0.130
Adult Services Demand	1.057	0.197	0.203
Education Out of County & Pupil Numbers	(0.278)	0.082	(0.089)
Council Tax Reduction Scheme Caseload	0.314	(0.170)	(0.171)
Capital Financing Charges	(0.320)	0.215	0.253
Non Pay Inflation	1.168	1.478	1.513
Income – Additional Income & Inflation	(0.650)	(0.596)	(0.538)
One Off Expenditure / Committed Changes	0.200	(0.237)	0.000
Other Budget Pressures	1.018	0.000	0.000
Estimated Net Revenue Budget	153.988	157.178	160.617
Annual Increase	6.567	3.191	3.439

- 7.2. The estimated Net Revenue Budget represents an increase of 8.95% over the 3 year period.
- 7.3. More detail on the estimated Net Revenue Budget and the assumptions that support the plan are attached as Appendix 2 and 3.
- 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 2022/23 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 2020/21, Anglesey received £104.825m in Aggregate External Finance from the Welsh Government.

- 8.4.** In September 2017, the Executive resolved to maintain the average Council Tax increase to 5% each year (21.55% for the 4 years up to 2021/22). Based on this resolution, the Band D Council Tax charge for 2021/22 should be £1,322.46. In reality, the increases have varied each year; 2018/19 – 4.8%, 2019/20 – 9.5%, 2020/21 – 4.5%, 2021/22 – 2.75% (23.22% for the 4 years up to 2021/22), with the Band D Council Tax charge for 2021/22 set at £1,340.64.
- 8.5.** Table 3 below shows the additional income that various changes in AEF and increases in Council Tax would have on the Council's funding:-

Table 3
Impact on Council Funding for Changes in AEF and Council Tax 2022/23

		Change in AEF Cash Sum							
		- 2%	-1%	0%	+1%	+2%	+3%	+4%	+5%
		£'m							
Council Tax Rise (net of rise in CTRS)	0%	-2.10	-1.05	0.00	+1.05	+2.10	+3.14	+4.19	+5.24
	1%	-1.67	-0.63	+0.42	+1.47	+2.52	+3.57	+4.62	+5.66
	2%	-1.25	-0.20	+0.85	+1.89	+2.94	+3.99	+5.04	+6.09
	3%	-0.83	+0.22	+1.27	+2.32	+3.37	+4.41	+5.46	+6.51
	4%	-0.40	+0.64	+1.69	+2.74	+3.79	+4.84	+5.88	+6.93
	5%	+0.02	+1.07	+2.11	+3.16	+4.21	+5.26	+6.31	+7.36

9. BRIDGING THE FUNDING GAP

- 9.1.** It should also be noted that the current Council will only be responsible for setting the annual revenue budget for the next financial year and it will be for the new Council to determine its priorities and set the annual revenue budget for the final two years covered by this plan. Changing priorities will have an impact on the revenue budget and could lead to an increase or decrease in the funding gap.
- 9.2.** It can be seen from Table 3 that a reduction in AEF in 2022/23 would require an increase of between 4% and 5% in Council Tax merely to maintain the current level of funding in cash terms.
- 9.3.** In order to fully meet the funding gap for 2022/23, it would require a 5% increase in AEF, along with a 3% rise in Council Tax, to fully fund the additional net expenditure. The situation improves in the subsequent two years, with a 2% rise in AEF requiring a Council Tax rise of between 2% and 3% to bridge the funding gap.
- 9.4.** Although the WLGA and the Local Authorities have presented the case for additional funding to Welsh Government and in, particular, the need to fund the additional pressures in social care, the Welsh Government's budget may not allow for an increase of 5%, or they may choose to prioritise other spending areas e.g. health. Therefore, it may, once again, be necessary to identify savings in order to bring the net expenditure budget down to a level that can be funded by any increase in the AEF and an increase in Council Tax which will be supported by a majority of Members.
- 9.5.** It will, therefore, be necessary to consider implementing some level of savings in order to set a balanced budget in 2022/23. Included in the net revenue budget are a number of budgets where it is not possible to implement any savings, these include:-

Fire Authority Levy – £3.69m in 2021/22
Capital Financing Costs – £7.48m in 2021/22
Council Tax Reduction Scheme – £6.29m in 2021/22
Historic Pension Costs – £1.04m in 2021/22
Local Government Scheme Annual Deficit Payment – £0.83m in 2021/22
Members Allowances – £0.77m in 2021/22
Joint Services with Other Local Authorities - £2.7m in 2021/22
General and Specific Contingencies – £0.62m in 2021/22

- 9.6.** Therefore, any savings have to come from the remaining budgets (£124m in 2021/22). If a mid point assumption is made in the increase in AEF (2%) and Council Tax (3%), this would reduce the funding gap from £6.57m to £3.20m. This equates to savings of 2.2% from the net revenue budget, or 2.6% from the budgets where it is possible to implement savings.
- 9.7.** Work has commenced to identify savings, but the previous strategy of efficiency savings, increasing income, better procurement, reducing overheads and utilising unused budgets, has exhausted the savings possible. An initial review has identified around £700k of potential savings for 2022/23 across all services, which may not be sufficient to bridge the funding gap if the settlement from the Welsh Government is at the lower end of the estimated increase. In order to achieve a significant level of savings, the plans need to be more radical and it may be necessary to implement further service reductions. In addition, it is estimated that around £200k of savings are possible as a result of the changes in working practices following the pandemic (less face to face local, regional and national meetings, more home working leading to less office expenses, greater use of electronic communication reducing paper, postage and telephone costs).
- 9.8.** 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 sets out the estimated net revenue budget for the next 3 years using a number of assumptions, some of which are more certain than others. The plan allows the Council to determine its future funding strategy, but there are a number of issues which increase the uncertainty surrounding the plan. These include estimating the future demand for services as the country moves out of the pandemic and into a recovery phase, and the future funding of Local Government in Wales. The level of support from Welsh Government is a key element of the Medium Term Financial Plan, and the lack of accurate future forecasts on the level of funding does reduce the level of assurance that the plan can give.
- 10.2.** The demand for services and the pressure to increase the pay of certain parts of the Council's workforce (both for the Council's own employees and employees working in contracted services) will drive up costs significantly, particularly in 2022/23. If these additional cost pressures are not reflected in the funding settlement from Welsh Government, then the Council will have to implement further cuts to services and / or higher than inflation increases in Council Tax in order to set a balanced budget, which allows the Council to meet its statutory obligations and accurately reflects the costs of providing those services.

APPENDIX 2

MEDIUM TERM FINANCIAL PLAN ASSUMPTIONS

	Final		
	2022/23	2023/24	2024/25
Teachers Pay Award	1.60%	2.0%	2.0%
Teachers Pension	0.0%	0.0%	0.0%
NI Rates	9.05%	0.0%	0.0%
Non Teaching Pay Award	2.81%	2.0%	2.0%
Non Teaching Pension	0.0%	0.0%	0.0%
Staff Turnover Adjustment	0.0%	0.0%	0.0%
Incremental Drift	0.2%	0.2%	0.2%
Historic Pension Costs	2.0%	2.0%	2.0%
Members Allowances (rise to 35 Members in 2022)	2.0%	2.0%	2.0%
Car Allowance Inflation	0.0%	0.0%	0.0%
CPI	2.0%	2.0%	2.0%
RPI	3.0%	3.0%	3.0%
Energy Inflation	3.0%	3.0%	3.0%
Non Statutory Income	3.0%	3.0%	3.0%
Children's Placement Caseload	10.0%	2.0%	2.0%
Out County School Placements	0.0%	0.0%	0.0%
Homelessness Caseload	50.0%	2.0%	2.0%
Refuse Disposal Tonnage	0.0%	-2.0%	-2.0%
CTRS Caseload	5.0%	-2.5%	-2.5%
Interest Rates Increase	0.3%	0.5%	1.0%
Fire Levy	2.0%	2.0%	2.0%
AEF Projections	2.0%	2.0%	2.0%
Council Tax Increase	3.0%	3.0%	3.0%
Refuse Collection	2.0%	2.0%	2.0%
Refuse Disposal	-9.0%	2.0%	2.0%
Highway Maintenance	2.0%	2.0%	2.0%
School Meals	2.0%	2.0%	2.0%
School Transport	2.0%	2.0%	2.0%
Public Service Bus Contracts	2.0%	2.0%	2.0%
Elderly Service Provision	5.0%	1.0%	1.0%
Phys Dis Service Provision	5.0%	1.0%	1.0%
LD Service Provision	5.0%	1.0%	1.0%
Mental Health Service Provision	5.0%	1.0%	1.0%
Elderly / Nursing Home Fees £50 pw per bed	£750,000	£0	£0
Real Living Wage to Care Provider Staff	£342,000	£0	£0
Green Garden Waste	-£140,000	£0	£0
School Meals Contract	-£300,000	£0	£0
Out of County School Placements	-£400,000	£0	£0
Members Allowances (rise to 35 Members in 2022)	£75,000	£0	£0
Gwynedd Môn Partnership Savings	-£80,000	£0	£0
Change in Working Practices Savings - Premises	-£10,000	£0	£0
Change in Working Practices Savings - Car Allowances	-£87,000	£0	£0
Change in Working Practices Savings - Transport	-£30,000	£0	£0
Change in Working Practices Savings - Supplies & Services	-£78,000	£0	£0

ESTIMATED NET REVENUE BUDGET 2022/23 - 2024/25

	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000
Delegated Schools Budget				
School Pay Costs	34,597.96	35,517.98	36,409.59	37,278.59
Other School Costs	8,030.36	8,212.74	8,403.15	8,598.14
Pupil Number Adjustment	-	121.52	82.39	- 89.24
Total Schools Delegated Budget	42,628.32	43,852.24	44,895.13	45,787.50
Staff Related Costs (Non Schools)				
Pay Related Costs (Non Schools)	44,209.82	45,799.33	47,400.89	48,422.65
Staff Expenses	606.48	519.48	519.48	519.48
Additional Pension Contributions	1,867.09	1,887.88	1,909.10	1,930.74
Other Staff Costs	809.88	826.08	893.60	911.47
Apprenticeship Levy	351.97	362.45	370.28	378.26
Total Staff Related Costs (Non Schools)	47,845.24	49,395.22	51,093.35	52,162.61
Main Council Contracts				
Refuse Collection	5,462.96	5,572.22	5,683.66	5,797.33
Refuse Disposal	1,338.36	1,217.91	1,217.91	1,217.91
Highway Maintenance	4,558.66	4,649.83	4,742.83	4,837.69
School Meals	2,348.61	2,089.58	2,131.37	2,174.00
School Transport	3,013.03	3,073.29	3,134.75	3,197.45
Public Service Bus Contracts	776.02	791.54	807.37	823.52
Joint Services with Other Local Authorities	2,834.95	2,810.05	2,866.25	2,923.58
Total Main Council Contracts	20,332.59	20,204.42	20,584.15	20,971.47
Demand Led Services				
Children's Services	5,595.36	6,266.80	6,517.47	6,778.17
Adult Services	19,683.99	22,153.86	22,789.05	23,442.71
Out of County Placements	1,351.62	978.65	998.22	1,018.19
Homelessness and Housing Related Services	230.81	308.56	319.18	330.18
Total Demand Led Services	26,861.78	29,707.87	30,623.93	31,569.25
Other Council Expenditure				
Premises Related	3,974.40	4,064.07	4,297.93	4,405.52
Transport Related	72.79	43.64	44.52	45.41
Supplies and Services	10,501.93	10,632.41	10,982.47	11,202.12
Members Allowances	773.21	869.94	923.04	941.50
Levies	3,695.21	3,769.00	3,844.28	3,921.06
Council Tax Reduction Scheme	6,289.80	6,792.98	6,826.95	6,861.08
Recharge of Central Service Costs to HRA	- 1,325.46	- 1,362.71	- 1,389.96	- 1,417.76
Capital Financing Costs	7,482.38	7,161.99	7,377.26	7,630.29
Total Other Council Expenditure	31,464.25	31,971.34	32,906.48	33,589.21
Income				
Grants / Public Bodies Reimbursements	- 6,189.95	- 6,313.75	- 6,440.03	- 6,568.83
Statutory Income	- 10,582.25	- 10,793.90	- 11,009.78	- 11,229.97
Non Statutory Income	- 5,804.47	- 6,118.60	- 6,302.16	- 6,491.23
Total Income	- 22,576.68	- 23,226.26	- 23,751.97	- 24,290.03
Contingencies and One Off Costs	864.48	1,064.48	826.98	826.98
Potential Increases to Meet Service Demands	-	1,017.72	-	-
Net Revenue Expenditure	147,419.97	153,987.03	157,178.05	160,617.00

