

## ISLE OF ANGLESEY COUNTY COUNCIL

### Scrutiny Report Template

<b>Committee:</b>	Corporate Scrutiny Committee
<b>Date:</b>	28 <sup>th</sup> February, 2022
<b>Subject:</b>	2022/23 Budget Setting (Revenue)
<b>Purpose of Report:</b>	Scrutiny consideration of final draft budget proposals for 2022/23
<b>Scrutiny Chair:</b>	Cllr Aled Morris Jones
<b>Portfolio Holder(s):</b>	Cllr Robin Williams
<b>Head of Service:</b>	Marc Jones, Director of Resources / Section 151 Officer
<b>Report Author:</b>	Anwen Davies, Scrutiny Manager
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<b>Local Members:</b>	Applicable to all Elected Members

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#### 1 - Recommendation/s

Agree a formal response to the Executive on the Council's final draft proposed revenue budget for 2022/23 (using the key scrutiny questions in paragraph 4 below).

#### 2 – Link to Council Plan / Other Corporate Priorities

Direct link with the Council Plan and transformation priorities. The Committee's consideration of the initial budget proposals for next year will include how the proposals enable the new Council to deliver on the Council's Transitional Plan as well as any specific risks.

#### 3 – Guiding Principles for Scrutiny Members

**To assist Members when scrutinising the topic:-**

**3.1** Impact the matter has on individuals and communities [focus on customer/citizen]

**3.2** A look at the efficiency & effectiveness of any proposed change – both financially and in terms of quality [focus on value]

**3.3** A look at any risks [focus on risk]

**3.4** Scrutiny taking a performance monitoring or quality assurance role [focus on performance & quality]

**3.5** Looking at plans and proposals from a perspective of:

- Long term
- Prevention
- Integration
- Collaboration
- Involvement

[focus on wellbeing]

**3.6** The potential impacts the decision would have on:

- protected groups under the Equality Act 2010

- those experiencing socio-economic disadvantage in their lives (when making strategic decisions)
- opportunities for people to use the Welsh language and treating the Welsh language no less favourably than the English language

[focus on equality and the Welsh language]

#### 4 - Key Scrutiny Questions

The following key questions are proposed to underpin the Committee's consideration of the 2022/23 budget proposals:

- Using the information available to the Committee about Council services and draft funding settlement for 2022/23, do the proposals respond adequately to Service pressures and challenges?
- Does the Committee consider that any of the budget proposals will have a detrimental effect on the citizens of Anglesey or any protected groups? Does the Committee consider that any further action should be taken to mitigate the impact of the proposals on Anglesey citizens or protected groups?
- Does the Committee support an increase in the Council Tax of 2% in order to realise the proposals of the Executive for 2022/23? If it does not, should the increase be more or less than that proposed by the Executive?

#### 5 – Background / Context

##### 1. CONTEXT

**1.1** Scrutiny of the budget setting process has developed and matured over recent years, laying the foundations for a better, more systematic process based on outcomes and good practice. In fact, the process allows for a more systematic approach to financial scrutiny, as an essential building block of sound financial management and governance.

**1.2** Members will be aware that finance is critical to the services the Council delivers and that there are far reaching implications to financial issues facing us as a local authority – both in terms of the services being received by our citizens and also the level of Council Tax or fees and charges being levied<sup>1</sup>. This will inevitably require us to ask challenging questions about which services to offer to the future and which services to invest in and also the degree to which current methods of service delivery remain appropriate. Another consideration is also how best to manage expectations of local people in making the necessary changes. In the current economic climate, Members therefore need to be assured that the Council is making the most effective use of resources, in particular finances.

**1.3** In considering their response to the final draft budget proposals, members of the Corporate Scrutiny Committee will need to consider the proposals in terms of the longer term financial position of the Council (our Medium Term Financial Plan) and the Council's objectives and priorities as set out in the Transitional Plan.

##### 2. SETTING THE COUNCIL'S BUDGET FOR 2022/23

**2.1** Attached is the report of the Director of Function (Resources) / Section 151 Officer on the final draft proposals for the 2022/23 budget (**APPENDIX 1**) which

<sup>1</sup> Raising the Stakes: financial scrutiny in challenging times. A guide for Welsh local authorities (Centre for Public Scrutiny June, 2014)

will be submitted to a meeting of the Executive on 3<sup>rd</sup> March, 2022. The paper provides a position statement on the following issues:

- The Executive's initial budget proposals
- Local Government initial settlement (Welsh Government)
- Initial budget position for 2022/23
- Budget pressures which must be allowed for in the 2022/23 budget
- Investment proposals to address service issues and risks
- The financial risks which the Council faces during 2022/23
- The level of Council Tax increase required to set a balanced budget
- Impact on the Medium Term Financial Plan

Details of the Final Settlement for the 2022/23 budget are expected from Welsh Government on 2<sup>nd</sup> March, 2022.

### **3. FINANCIAL SCRUTINY – SETTING THE 2022/23 BUDGET**

3.1 Financial scrutiny is much more than adding value to decisions taken by the Executive. It is about ensuring that there is proper scrutiny in the effective planning, delivery and follow up of key decisions impacting on taxpayers and local communities. Scrutiny should therefore:

- Provide effective challenge
- Hold decision makers to account; and
- Assist the Executive to develop a robust budget for the coming year.

### **4. FINANCE SCRUTINY PANEL**

4.1 The Finance Scrutiny Panel has been established to ensure the following key outcomes:

- Develop a model of working on finance matters focusing on a smaller group to enable Members to become more involved, develop a level of subject expertise, encourage good attendance and teamwork
- Forum to develop a group of members with the expertise and ownership to lead financial discussions at the Corporate Scrutiny Committee

4.2 The Panel gave further consideration to the budget proposals at its last meeting (14<sup>th</sup> February, 2022). A summary of the Panel's deliberations will be presented verbally at the meeting by Cllr Dafydd Roberts, chair of the Panel.

### **5. PUBLIC CONSULTATION PROCES**

5.1 For the first time in several years, it is possible for the Council to consider investment in order to address service issues and risks. The level of investment is dependent on the level of the increase in the Council Tax.

5.2 The consultation set out the Council's financial position, the financial risks and issues which the Council faces. It also sought the views of Anglesey taxpayers on the Executive's proposal to address those risks through re-investment in services, partly funded by a 2% increase in Council Tax.

5.3 The consultation period ran for a period of a fortnight between 26<sup>th</sup> January and 9<sup>th</sup> February, 2022.

## 5.4 SUMMARY OF CONSULTATION

115 responses were received with nearly 30% of respondents within the 55-64 age group. Respondents replied from varying locations across Anglesey, from Holyhead to Benllech, Cemaes to Menai Bridge, Amlwch to Malltraeth, Rhosneigr, Llanfechell to name but a few.

95% of responses received were either from individuals acting on behalf of themselves or individuals acting on behalf of their families.

Of those responses 31% agreed that there should be a 2% increase in the Council Tax to fund activities which address the pressures identified as part of the consultation. 69% of the responses received did not agree with such a rise.

Of those who did not agree with such a rise when asked about what the Council should prioritise –

- 34% proposed that the County Council should prioritise investment into Children services, followed by
- 32% who believed the Council should prioritise investment into our highways, waste and property service to address challenges relating to decarbonisation and ash dieback and the demand for additional cleanliness in Council assets as a result of the pandemic.

A further 21 respondents believed that no such investment should be realised and that the County Council should continue as it is without the need for further investment.

## 6. KEY SCRUTINY ISSUES

6.1 The 2022/23 budget setting process provides an opportunity for Elected Members to consider and challenge the implications of the draft budget and any additional investment proposals. Input has also been received via the Finance Scrutiny Panel who have given detailed consideration to the budget proposals. At this stage in the process, the Corporate Scrutiny Committee is now requested to agree a formal response to the Executive<sup>2</sup> on the Council's proposals for the 2022/23 revenue budget (using the key scrutiny questions in paragraph 4 above).

6.2 In light of the 2022/23 budget setting process to date, it is therefore proposed that the Committee should:

- i. Consider the Executive's final draft budget proposals and provide comments which the Executive can consider before agreeing its final draft budget proposals on 3<sup>rd</sup> March, 2022.
- ii. Examine in detail the likely impacts on citizens of the initial proposals
- iii. Come to a view about the level of the Council Tax for 2022/23.

## 6 – Equality Impact Assessment [including impacts on the Welsh Language]

<sup>2</sup> Meeting of the Executive to be convened on 3<sup>rd</sup> March, 2022

**6.1 Potential impacts on protected groups under the Equality Act 2010**

Identify the need for impact assessments later in the 2022/23 budget setting process.

**6.2 Potential impacts on those experiencing socio-economic disadvantage in their lives (strategic decisions)**

Identify the need for impact assessments later in the 2022/23 budget setting process.

**6.3 Potential impacts on opportunities for people to use the Welsh language and treating the Welsh language no less favourably than the English language**

Identify the need for impact assessments later in the 2022/23 budget setting process.

**7 – Financial Implications**

This report discusses the process for setting the Council's 2022/23 budget, which includes consideration of the final draft proposals for the revenue budgets.

**8 – Appendices:**

**APPENDIX 1:** report of the Director of Function (Resources) on the proposed revenue budgets for 2022/23.

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

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## ISLE OF ANGLESEY COUNTY COUNCIL

REPORT TO:	EXECUTIVE COMMITTEE
DATE:	3 MARCH 2022
SUBJECT:	MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2022/23
PORTFOLIO HOLDER(S):	COUNCILLOR R WILLIAMS
HEAD OF SERVICE:	MARC JONES – DIRECTOR OF FUNCTION (RESOURCES / SECTION 151 OFFICER
REPORT AUTHOR:	MARC JONES
TEL:	01248 752601
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LOCAL MEMBERS:	n/a

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

#### 1. MEDIUM TERM FINANCIAL STRATEGY AND 2022/23 REVENUE BUDGET

##### 1.1 Purpose

The Executive is required to agree a number of key matters in respect of the 2022/23 budget. This will then allow the final recommendations to be presented to the full Council at its meeting on 10 March 2022. The matters requiring agreement are:-

- The Council's Revenue Budget and resulting Council Tax for 2022/23;
- The Council's updated Medium Term Financial Strategy;
- The use of any one-off funds to support the budget.

##### 1.2 Summary

This paper shows the detailed revenue budget proposals requiring final review and agreement for 2022/23, and the resulting impact on the Isle of Anglesey County Council's revenue budget. These are matters for the Council to agree, and the Executive is asked to make final recommendations to the Council.

The paper also updates the Medium Term Financial Strategy, which provides a context for work on the Council's future budgets. However, it should be noted that a further report on the Council's Medium Term Financial Strategy will be presented to the Executive later in the year when further information on the economy and the proposed future local government financial settlement may be clearer.

#### 2. 2022/23 REVENUE BUDGET AND COUNCIL TAX RECOMMENDATIONS

The Executive is requested :-

- To note the formal consultation meetings on the budget and consider the resulting feedback, as outlined in Section 3 of Appendix 1;
- To agree the final details of the Council's proposed budget, as shown in Section 7 of Appendix 1 and Appendix 2;
- To note the Section 151 Officer's recommendation that the Council should maintain a minimum of £7.9m general balances;
- To note the comments made by the Section 151 Officer on the robustness of the estimates made, as set out in Section 5 of Appendix 1;

- To recommend a net budget for the County Council of £158.365m and resulting increase in the level of Council Tax of 2.00% (£26.82 – Band D) to the full Council, noting that a formal resolution, including the North Wales Police and Community Council precepts, will be presented to the Council on the 10 March 2022;
- That any differences between the provisional settlement and the final settlement will be adjusted for by using the general contingency which is included in the 2022/23 budget, or by making a contribution to / from the Council's general reserves in order to set a balanced budget;
- To authorise the Section 151 Officer to make such changes as may be necessary before the submission of the final proposals to the Council;
- To agree that any unforeseen pressures on demand led budgets during the financial year will be able to draw upon funding from the general contingencies budget;
- To request the Council to authorise the Executive to release up to £250k from general balances if the general contingencies budget is fully committed during the year;
- To delegate to the Section 151 Officer the power to release funding from the general contingency up to £50k for any single item. Any item in excess of £50k not to be approved without the prior consent of the Executive;
- To confirm that the level of Council Tax Premium for second homes increases to 50% and for empty homes remains at 100%.

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

A number of options were considered following the issue of the initial budget proposals. The final budget proposals take account of the final local government settlement, views expressed during the consultation process and the views of the Scrutiny Committee.

**C - Why is this a decision for the Executive?**

The Council's Constitution requires the Executive to publish its final budget proposal prior to its consideration by the Council.

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

Yes. The final decision on the 2022/23 revenue budget will be taken by the full Council at its meeting on 10 March 2022.

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

N/A

**Dd – Assessing the potential impact (if relevant):**

<b>1</b>	How does this decision impact on our long term needs as an Island?	In drawing up the budget proposal, the Executive has considered its statutory duties and the objectives set out in its Corporate Plan.
<b>2</b>	Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority? If so, how?	The details of any savings proposals are set out in the report.
<b>3</b>	Have we been working collaboratively with other organisations to come to this decision? If so, please advise whom	The Council has been working with other Councils and the WLGA to press the Welsh Government for the best financial settlement possible.
<b>4</b>	Have Anglesey citizens played a part in drafting this way forward, including those directly affected by the decision? Please explain how.	The budget proposals have been subject to a consultation process, the details of which are included in the report. The Executive has considered the results of the consultation before agreeing the final budget proposal.

5	Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.	Any proposals included in the final budget for 2022/23 will take into account the impact on any protected groups.
6	If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.	The budget will result in an increase in the Council Tax payable by the taxpayers of Anglesey. Those experiencing socio-economic disadvantage are more likely to qualify for help through the Council Tax Reduction Scheme, which should result in no financial impact / limited financial impact to those who are experiencing socio-economic disadvantage.
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 identified.

DD - Who did you consult?		What did they say?
1	<b>Chief Executive / Strategic Leadership Team (SLT)</b> (mandatory)	The Chief Executive and Senior Leadership Team have been part of the budget setting process throughout and are in agreement with the report and support the final budget proposal.
2	<b>Finance / Section 151</b> (mandatory)	N/A – this is the Section 151 Officer's report.
3	<b>Legal / Monitoring Officer</b> (mandatory)	The Monitoring Officer is part of the SLT and, as such, the Officer's comments have been taken into account.
4	<b>Human Resources (HR)</b>	-
5	<b>Property</b>	-
6	<b>Information Communication Technology (ICT)</b>	-
7	<b>Scrutiny</b>	Final budget proposals were considered by the Scrutiny Committee at its meeting on 28 February 2022. A verbal update on the outcome of the meeting will be provided to the Executive.
8	<b>Local Members</b>	The Council's budget is applicable to all Members and consultation has taken place throughout the budget setting process.
9	<b>Any external bodies / other/s</b>	See Section 2 of the report.

<b>F - Appendices:</b>
<ul style="list-style-type: none"> <li>• Appendix 1 – Detailed report on the Budget Proposals</li> <li>• Appendix 2 – Summary of the Results of the Consultation Process</li> <li>• Appendix 3 – Summary of the Proposed Revenue Budget 2022/23 by Service</li> </ul>
<b>FF - Background papers (please contact the author of the Report for any further information):</b>
<ul style="list-style-type: none"> <li>• Initial Budget Proposals for 2022/23 – Executive Committee – 24 January 2022</li> <li>• Initial Budget Proposals for 2022/23 – Corporate Scrutiny Committee – 24 January 2022</li> <li>• Medium Term Financial Plan for 2022/23 to 2024/25 – Executive Committee – 27 September 2021</li> <li>• Full report on the Budget Consultation</li> </ul>



## 1. INTRODUCTION AND BACKGROUND

- 1.1. The following report sets out the 2022/23 revenue budget proposals, and is one of a set of reports which provides an overall picture of the financial position of the Council and ensures that the Council funding is allocated to meet its priorities. The other reports in the set relate to the Council's Capital Programme and Capital Strategy, the Council's Treasury Management Strategy and Fees and Charges.
- 1.2. The revenue budget and the continued need to identify revenue savings has been driven by the Medium Term Financial Plan as approved by the Executive Committee in September 2021 and can be summarised as follows:-

**Table 1**  
**Medium Term Financial Plan 2022/23 to 2024/25**

	2022/23 £'m	2023/24 £'m	2024/25 £'m
Net Revenue Budget B/F	147.420	153.987	157.178
Budget Pressures and Inflation	6.567	3.191	3.439
<b>Revised Standstill Budget</b>	<b>153.987</b>	<b>157.178</b>	<b>160.617</b>
Aggregate External Finance (AEF) for 2021/22	104.825	104.825	104.825
Council Tax	42.295	42.295	42.295
<b>Total Funding</b>	<b>147.120</b>	<b>147.120</b>	<b>147.120</b>
<b>Additional Funding Requirement / Savings Required</b>	<b>6.867</b>	<b>10.058</b>	<b>13.497</b>
<b>Main Assumptions</b>			
Pay Awards – Non Teaching	2.81%	2.00%	2.00%
Pay Awards - Teaching	1.60%	2.00%	2.00%
General Inflation	2.00%	2.00%	2.00%

- 1.3. Given the lack of forward information, it was difficult to estimate the change in the level of the Aggregate External Finance (AEF) provided by the Welsh Government for 2022/23, and even more difficult to estimate the changes in 2023/24 and 2024/25. The AEF is a significant figure from which the Council then determines the level of Council Tax increase and any savings it is required to make in each year.
- 1.4. The economic situation has clearly moved on from the position in September 2021, with inflation rising quickly and to a level which has not been seen for a number of years. This has had a significant impact on the pay and prices inflation factors and has increased the estimated budget requirement from that set out in the Medium Term Financial Plan in September 2021.

## 2. THE INITIAL BUDGET PROPOSAL

- 2.1. At its meeting on 24 January 2022, the Executive discussed its original budget proposal and the provisional budget settlement which the Welsh Government had published on 21 December 2021.
- 2.2. The provisional settlement was significantly better than anticipated, and would provide the Council with £114.549m, which is an increase in cash terms of £9.724m (9.27%) but, after allowing for grants transferring into the settlement and the effect of the change in the Council's taxbase, the adjusted increase was £9.677m (3.23%).
- 2.3. The Executive proposed a budget for 2022/23 of £158.365m and, given the provisional AEF of £114.549m, this would require an increase of 2.00% in Council Tax to balance the budget.

- 2.4.** In setting the proposed budget, the Executive recognised the need to begin re-investing in services that had seen significant budget cuts during the period of austerity. £2.86m has been allocated in the final budget proposal and will allow services to:-
- Deal with increased demands for services;
  - Mitigate risks to public safety;
  - Increase the level of resources directed to dealing with the Island's socio-economic challenges;
  - Continue the work to achieve a carbon zero organisation by 2030;
  - Continue to improve and modernise the Council's IT systems and business processes;
  - Continue to improve customer service.
- 2.5.** The budget proposal does not require any services to implement any budget savings for 2022/23.
- 2.6.** Although not intended as a measure of what the Council's net revenue budget should be, the Standard Spending Assessment (SSA) does give some indication as to whether the Council's budget is at a reasonable level for the Council. The SSA for 2022/23 is £159.692m and the proposed budget is, therefore, 99.2% of the SSA.

### **3. THE COUNCIL'S CONSULTATION**

- 3.1.** The Council published its budget proposals on 26 January 2022 and the consultation period closed on 9 February 2022. Citizens, partners, stakeholders and staff were asked to respond to the consultation by responding to a questionnaire on the Council's website. The consultation process was widely advertised on the Council's social media.
- 3.2.** Given the short time available to undertake consultation, arising from the late announcement of the provisional settlement and the fact that the pandemic and associated lockdown has restricted the Council's ability to hold meetings with its partners and stakeholders. However the budget proposals were discussed at the Town and Community Council Forum on 7 February 2022, and the Schools' Finance Forum, which met on 16 February 2022. Both meetings were supportive of the proposals and no major concerns or objections were raised at the meetings.
- 3.3.** A summary of the results of the consultation process is as follows:-
- 115 responses were received, with nearly 30% of respondents within the 55-64 age group. Respondents replied from varying locations across Anglesey, from Holyhead to Benllech, Cemaes to Menai Bridge, Amlwch to Malltraeth, Rhosneigr, Llanfechell and Coedana, to name but a few.
  - 95% of responses received were either from individuals acting on behalf of themselves or individuals acting on behalf of their families.
  - Of those responses, 31% agreed that there should be a 2% increase in the Island's Council Tax to fund activities which address the pressures identified as part of the consultation. 69% of the responses received did not agree with such a rise.
  - Of those who did not agree with such a rise, when asked about what the Council should prioritise –
    - 34% proposed that the County Council should prioritise investment into Children's Services, followed by
    - 32% who believed the Council should prioritise investment into our highways, waste and property service, to address challenges relating to decarbonisation and ash dieback and the demand for additional cleanliness in Council assets as a result of the pandemic.
  - A further 21 responses believed that no such investment should be realised and that the County Council should continue as it is without the need for further investment.

#### 4. SCRUTINY COMMITTEE

- 4.1. Due to the delays in receiving the provisional and final settlement, the budget timetable for 2022/23 has had to be condensed in order to ensure that the Council is in a position to set the Council Tax within the timeframe set out in the Local Government Finance Act 1992 (Section 30(6)). The 2022/23 initial budget proposal was considered by the Finance Scrutiny Committee at its meeting on 24 January 2022 and was given further consideration at its meeting of 28 February 2022, and a verbal report on the Committee's deliberations will be presented to the Executive at the Committee meeting. The Finance Scrutiny Panel examined in detail the service investment proposals at its meeting on 14 February 2022, and the Panel's comments were reported to the Corporate Scrutiny Committee meeting on 28 February 2022.

#### 5. ROBUSTNESS OF ESTIMATES

- 5.1. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of budget estimates and the adequacy of the proposed financial reserves.
- 5.2. Budget estimates are based on assumptions of future expenditure and income and contain an element of assumption risk. The impact of this risk can be mitigated through contingency plans, contingency budgets and financial reserves.
- 5.3. The robustness of budget estimates is not simply a question of whether they are correctly calculated. In practice, many budgets are based on estimates or forecasts, and there may be an element of risk as to whether plans will be delivered or targets achieved. Different risks to the budget are considered in turn below:-
- **Inflation Risk** – When inflation levels are low and the overall movement in the inflation rate is small, then the inflation risk is low, as has been the case for a number of years. However, there is a greater level of uncertainty surrounding pay and price inflation in 2022/23, and this significantly increases the risk. During late 2021, inflation started to increase quickly, and it is expected that this increase will continue during the early part of 2022. However, there are differing opinions as to whether this is a spike in inflation, which will ease during the second half of 2022, or whether higher inflation will continue for all of 2022. To some extent, the Council is protected from this risk because a majority of our larger contracts (school meals, highway maintenance, refuse collection etc.) use inflation indices from September, October or November 2021 to determine the inflation for 2022/23. Given that these figures are known, they have been built into the proposed budget for 2022/23. Pay is the Council's largest cost, and the pay award for non-teaching staff for 2021/22 has yet to be agreed and no offer has been made for 2022/23. The budget proposal allows for an increase of 1.75% for 2021/22 and 3.5% for 2022/23. Any award above these figures would have to be funded from the Council's reserves. The teachers' pay award up to September 2022 has been agreed and, again, 3.5% has been allowed for the pay award which will be implemented in September 2022. For the remainder of the Council's expenditure, 2% has been allowed for as an inflation factor but, as the vast majority of the Council's expenditure is pay related or covered by a contract, the financial risk of under estimating this figure is low and would be mitigated by the Council holding sufficient general balances.
  - **Interest Rate Risk** - Interest rates affect a single year's revenue budget through the interest earned - i.e. an interest rate rise is beneficial. The Authority's Treasury Management Strategy requires investments to be made on the grounds of security and liquidity of the investment as the first consideration, with investment returns being a lower priority, therefore, the budget is not reliant on high investment returns. Interest rates continue to be very low, but are beginning to rise and may have to rise more sharply than anticipated if inflation continues to remain high. The majority of the interest paid by the Council relates to fixed rate loans which will not change should the interest rate rise. Therefore, the interest rate risk is considered low and, as in previous years, this is a compensating risk for inflation risk, because if one increases, the other is likely to increase also.

- **Grants Risk** - These are risks attached to the large number of specific grants from WG, Europe or other bodies which support a good proportion of Council spending. Some of these may be reduced substantially or cut altogether; we do not have a complete picture of all these and we will not even have one as the financial year begins. While the immediate response is to say that when the grant ceases, so must the associated expenditure, there is a risk that this may not always be possible. It may not be possible when contract terms mean the expenditure cannot be cut as quickly as the income, or involves unfunded severance costs. It may not be possible if the activity funded turns out to be so important to the delivery of the Council's own priorities that the Council decided it must continue the expenditure. Efforts to mitigate this risk are to ensure we have the best information available on each grant, but significant changes during the year cannot be entirely ruled out.
- **Income Risks** – The budget is based on securing an overall 3% increase in fees, and a number of services have assumed rises up to 3%. If the elasticity of demand for Council Services is such that volume falls, and income targets are not achieved, that may cause overspending on net budgets. This will require close monitoring of the net budget position and, if necessary, cutting back on spending to match reduced income.
- **Optimum Risk** – In previous years, probably the greatest risk in current circumstances is that the Authority, Members and Officers have been over-optimistic in the savings that will be achieved or that demand for services, particularly social care, will not increase significantly. For 2022/23, there are no savings proposed and, as such, this risk is not applicable to the 2022/23 budget.
- **Over-caution Risk** – This is the opposite of optimum risk: the danger that our budgets have been drawn up with too much caution and, so, are more than is required, and this would result in the Council Tax being set at a level that is higher than required, which is something that Members are keen to avoid. The Section 151 Officer is satisfied with the budget setting process and that the budget set is a fair assessment of the resources required by each service, based on the relevant factors as they stand at the moment.
- **Council Tax Premium** – In setting the taxbase, it is accepted that the number of empty properties and second homes can change during the year and, as such, only 80% of eligible properties are included in the taxbase. This protects the Council's budget should there be a significant drop in numbers. However, it should be noted that the number of empty properties used in the taxbase calculation fell from 394 properties in October 2020 to 324 properties in October 2021, and the number of second homes rose from 2,067 to 2,149 over the same period. The change in the level of the second home premium from 35% to 50% presents a significant risk in 2022/23. The increase may encourage second home owners to sell or let their property i.e. one of the intended purposes of increasing the premium, however, it may encourage a greater amount of non payment or avoidance by transferring to business rates or by other avoidance means. To mitigate the risk, additional staff will be employed to identify tax avoidance and minimise the amount of the premium lost as a result. As the Executive has committed to using all of the additional premium to address the issues caused by high numbers of second homes on Anglesey, any significant reduction in income would result in a reduction in the funding available for these initiatives in future years.

- **Council Tax Income** – The Council Tax income budget is based on the taxbase calculation as at November of the previous financial year. The taxbase changes constantly during the year, as new properties are included and exemptions and single person discounts are granted. These changes cannot be estimated and, invariably, lead to a difference between the actual debit raised and the budget. It should be noted that the number of properties being identified as self-catering accommodation and transferring to the business rates register has increased from 927 properties in February 2021 to 1,000 properties in February 2022, an increase of 83 properties. When a property moves across, the Valuation Office Agency will determine a date from which the property becomes liable for business rates, which can be a number of years back. Not only does the Council lose the Council Tax on these properties, but must also refund any Council Tax and premium which has been paid from the date when the property is placed on the Business Rates register. These movements can have a significant impact on the Council Tax yield in any one year.

The Covid pandemic has also resulted in the collection rate being lower than in previous years, and this may result in a financial loss in 2022/23 or future years, when uncollectable debts are eventually written off. The Welsh Government has provided grant funding to help cover the cost of uncollectable debts, and this funding will be released, if required, to mitigate the impact of a higher than normal level of debts written off.

- **Demand Risk** – A number of services can experience a change in the demand for its services. Some can be predicted and taken into account when setting the budget e.g. changes in pupil numbers. Others are more difficult to predict and a small increase in numbers can have a significant impact on costs. The budget allows for providing the service at current levels, with increases in demand covered by the Council's general balances or, in some cases, earmarked reserves.

- 5.4. Having considered all the risks noted above and the mitigating actions, the Section 151 Officer is of the view that the budgets are robust and deliverable.

## 6. GENERAL AND SPECIFIC RESERVES

- 6.1. The proposed budget incorporates a number of assumptions in terms of likely levels of income and expenditure in future years. There are, therefore, inevitably a number of financial risks inherent in the proposed budget, which are set out in paragraph 5 above.
- 6.2. In terms of any contingencies and reserves, the Section 151 Officer needs to review these in their totality in conjunction with the base budget itself and the financial risks which face the Authority. In addition, the review should incorporate a medium term view where needed and should take into account key developments that may impact on the need and use of one off resources.
- 6.3. A robust view is being taken on managing budget risks and protecting the financial health of the Council at this time. This is particularly the case when one off funds need to be adequately protected to fund future strategic / transformational changes, as opposed to funding significant overspends on the base budget itself.
- 6.4. Account has been taken of the need to keep the immediate reductions in spending and the resulting impact on services to a minimum, but this must be balanced against the need to ensure the medium and long term financial stability of the Council, and for savings to be implemented over the coming years in a phased and structured way. In addition, there is always some risk of unforeseen items of expenditure or overspending because of a more general pressure on a service budget, and reserves must also be adequate to absorb these pressures.

- 6.5. As at 31 March 2021, the Council's general reserves stood at £11.437m, which is equivalent to 7.77% of the Council's net revenue budget for 2020/21, 10.94% if the delegated schools' budget is excluded. During the year, £3m has been allocated to the roof repairs at CAYB, £1.376m were transferred into specific service reserves and £0.150m has been used for other purposes, but £0.643m of previously earmarked reserves have been transferred back into general balances. Therefore, the revised level currently stands at £7.554m.
- 6.6. £1.681m of the general balances have been allocated as funding for the 2022/23 capital programme. However, it is anticipated that there will be a significant underspend in 2021/22, which will allow the general balances to be replenished, £2m being a conservative estimate, which should allow the general balances to be around £8m at the end of the financial year, which is around 5% of the net revenue budget for 2022/23.
- 6.7. The level of general balances is a matter for the Council to decide based on the recommendation of the Council's Section 151 Officer but, as a general rule, 5% of the net revenue budget is considered to be an acceptable level. It is a matter for debate whether the net revenue budget should exclude the delegated schools budget, as schools hold their own balances to meet unexpected costs. Based on the current financial situation, there is a high degree of confidence that the level of general balances will exceed 5% of the net revenue budget at the beginning of the 2022/23 financial year.
- 6.8. Financial risks are also mitigated by holding earmarked reserves, which are held to mitigate specific risks or to fund specific projects which are of benefit to the Council. At the beginning of the financial year, the Council held £15.455m as earmarked reserves (including £1.376m as specific service reserves). A significant part of the reserve balance could be returned to general balances if the financial position of the Council worsened significantly during 2022/23. These earmarked reserves give an additional layer of financial protection in addition to the Council's general balances.
- 6.9. The proposed revenue budget for 2022/23 includes £0.405m of general contingencies which can be used to fund unexpected and unbudgeted expenditure during the year. These budgets again, serve to mitigate the financial risks inherent when setting the revenue budget.
- 6.10. Having taken into consideration the level of the Council's general balances, school balances, earmarked reserves and contingency budgets, the Section 151 Officer is content that the Council's financial position is sufficiently robust to withstand any difficulties that may arise during 2022/23 if the proposed revenue budget is insufficient to meet the actual costs incurred by the Council during 2022/23.

## 7. FINAL BUDGET PROPOSAL 2022/23

- 7.1. Since the completion of the initial budget proposals, further work has been undertaken to review and revise the final budget for 2022/23, including a full review of all the investments in the services by the Executive. This has resulted in changes to the initial budget proposal in terms of individual budget headings and the budget allocations between services, but the review has not had any impact on the final net budget requirement, which remains at as set out in Table 2 below:-

**Table 2**  
**Adjustments to Initial Budget Proposal**

	£m	£m
<b>Final Proposed Net Revenue Expenditure Budget 2022/23</b>		<b>158.365</b>
<b>Funded By:</b>		
Revenue Support Grant	89.056	
Non-Domestic Rates	25.493	
Total AEF		114.549
Council's General Reserves		0.000
Council Tax (including Premium)		43.816
<b>Total Funding</b>		<b>158.365</b>

- 7.2.** The Welsh Government will publish its final local government settlement on 2 March 2022, which will be too late for the Executive to take account of in its final budget proposals. It is not anticipated that there will be any significant change between the provisional and final settlement, but any change will be accounted for by adjusting the level of general contingency if the variance is small, or by funding from / contributing to the Council's general balances should the variance be larger. As such, the proposed level of Council Tax will remain unchanged even if the final AEF differs from the figure shown in the provisional settlement.

## **8. COUNCIL TAX**

- 8.1.** The Council's Band D Council Tax charge for 2021/22 was £1,340.64, which was 17<sup>th</sup> from the 22 Authorities in Wales and is lower than the Welsh Average of £1,430. More importantly for Anglesey is the comparison to the 5 other North Wales authorities. This is shown in Table 3 below:-

**Table 3**  
**Comparison of Council Tax Band Charges for North Wales Authorities**

<b>Authority</b>	<b>Band D Charge 2021/22 £</b>	<b>Amount Above / Below Anglesey £</b>	<b>Percentage Above / Below Anglesey %</b>
Anglesey	1,341		
Gwynedd	1,483	+ £142	+ 10.6%
Conwy	1,383	+ £42	+ 3.1%
Denbighshire	1,437	+ £96	+ 7.2%
Flintshire	1,394	+ £53	+ 4.0%
Wrexham	1,319	- £22	- 1.6%

- 8.2.** The Council Tax budget for 2022/23 (prior to an increase in the Council Tax but after adjusting for the change in the Council Tax Base and premium) is £41.14m. Therefore, each 1% increase generates an additional £411k.
- 8.3.** After taking into account the provisional settlement figure of £114.549m, the revised budget requirement of £158.365m (see Table 2) would require £42.957m in Council Tax funding. To fund the revised budget requirement, the increase in the level of Council Tax would be 2.00%, taking the Band D charge to £1,367.46, an increase of £26.82 or £0.51 per week.
- 8.4.** In the provisional settlement, the standard tax element for the Council i.e. the standard Council Tax figure across Wales, which is used to determine the AEF for each Council, was set at £1,452.49, which is 3.5% higher than the 2021/22 figure.

## **9. EQUALITIES IMPACT ASSESSMENT**

- 9.1.** In delivering its services, the Council has to be mindful of its duties under the Equality Act 2010 (Statutory Duties) (Wales) Regulations 2011 to assess the impact of key financial decisions on protected groups and have due regard to the result of such assessments.
- 9.2.** The proposed budget will not impact on any of the protected groups set out in the Regulations and, as a result, no Equality Impact Assessments are considered necessary.

## **10. UPDATING THE MEDIUM TERM FINANCIAL STRATEGY**

- 10.1.** As stated in paragraph 1.4, the economic situation has changed considerably since the Council approved the Medium Term Financial Strategy (MTFS) in September 2021. In addition the provisional local government settlement for 2022/23 also changes the strategy significantly. The indicated increases in the AEF provides a little more certainty over the Council's funding over the subsequent two years, and this allows an update of the MTFS.

- 10.2.** The main area of uncertainty for the MTFS moving forward is inflation and its impact on future pay awards, whilst Covid and Brexit could still have a major impact on the nation's economy and as a consequence, on the Council's funding in 2023/24 and beyond and also the demand for Council services.
- 10.3.** However, based on the majority of the assumptions that were included in the MTFS approved in September 2021 but updating the assumptions for pay, inflation and the AEF, it is estimated that the Council's budget will increase by £3.3m in 2023/24 and £3.6m in 2024/25. The AEF would increase by £4m in 2023/24 and £2.8m in 2024/25.
- 10.4.** The figures shown in paragraph 10.3 are based on a number of assumptions which will change over the coming months and this may alter the financial position significantly but, based on the above there may be some scope for further re-investment in services in 2023/24, but the financial position worsens in 2024/25. However the revised MTFS does not indicate that the budget for 2022/23 is unaffordable in future years.
- 10.5.** An updated MTFS will be presented to the Executive in September 2022.

## **11. CONCLUSIONS**

- 11.1.** It is important that the budget set is achievable and accurately reflects the demands faced by services currently, although it is noted that a re-introduction of Covid restrictions would have a significant impact on the Council's budget. However, the budget assumes that the position will be no worse than it is now and that the restrictions will continue to ease over the coming months.
- 11.2.** The local government settlement is better than anticipated and, although it requires the Council to commit funding to some specific areas it also gives the Council the opportunity to re-invest in some services which have been most affected by budget reductions over the past 10 years.
- 11.3.** The additional grant funding that has been made available by Welsh Government has allowed the Council to strengthen its financial position and placed it in a stronger financial position moving forward into 2022/23 and beyond. There is always a risk that there is an increase in the demand for Council services which is not covered in the budget, but the increased level of general balances and earmarked reserves mitigates the risk substantially.
- 11.4.** Therefore, in the professional opinion of the Section 151 Officer, the proposed revenue budget for 2022/23 achieves the following objectives:-
- Ensures that the financial resources allocated to each service is sufficient to meet the current budget pressures and fulfil the demand for the statutory functions which the services must provide.
  - Addresses the continued underlying financial pressures in the Services which have been impacted most by an increased demand for services: Education, Children's Services and Adults Services, and allows for some re-investment in services which have been most affected during the period of austerity.
  - Sets a level of Council Tax which is comparable with the Welsh Government's assessment of where Anglesey's Council Tax should be, and is in line with the Council Tax set by other Welsh authorities of a similar size and type.

## **12. RECOMMENDATIONS**

- 12.1.** The Executive is recommended to approve the final budget proposal, as set out in Paragraph 7, to the full Council meeting on 10 March 2022.



## FINAL BUDGET PROPOSAL 2022/23 BY SERVICE

	Final Proposed Budget 2022/23 £
Education and Culture	57,268,324
Adult Services	29,963,922
Children's Services	11,715,110
Housing Services	1,914,489
Highways, Waste and Property	17,562,513
Regulation and Economic Development	4,619,800
Corporate Transformation	6,308,016
Resources	3,428,949
Council Business	1,857,068
Corporate Management	735,469
<b>Total Service Budgets</b>	<b>135,373,660</b>
Corporate and Democratic Costs	3,029,952
Recharges to HRA	(800,000)
Levies	3,957,345
Capital Financing	7,208,908
Benefits Granted	109,239
Discretionary Rate Relief	72,471
Council Tax Reduction Scheme	6,304,169
<b>Total Allocated Budgets</b>	<b>155,255,744</b>
General & Other Contingencies	2,492,347
Budget Pressures (Held Initially as a Contingency Budget)	616,830
<b>Total Budget 2022/23</b>	<b>158,364,921</b>
<b>Funded By</b>	
Revenue Support Grant	(89,056,039)
Non Domestic Rates	(25,492,959)
Council Tax (Including Council Tax Premium)	(43,815,923)
Council Reserves	0
<b>Total Funding</b>	<b>(158,364,921)</b>
<b>Difference Budget to Funding</b>	<b>-</b>



