

sle of Anglesey County Council

Report to:	Executive
Date:	27 September 2022
Subject:	Medium Term Financial Plan 2023/24 – 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

Recommendations

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 two year period and sets out the assumptions which will be taken forward to the annual budget setting process.

The Executive is requested to note the contents of the plan, to approve the assumptions made and to consider how to bridge the funding gap identified in the report as part of the process to set the 2023/24 revenue budget.

The detailed report is attached as Appendix 1.

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

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.

C – Why is this a decision for the Executive?

Paragraph 4.3.2.2.1 of the Council's Constitution requires the Executive to publish a pre-budget statement before 30 September each year.

Ch – Is this decision consistent with policy approved by the full Council?

Yes, as per paragraph 4.3.2.2.1 of the Council's Constitution.

D – Is this decision within the budget approved by the Council?

The decision, although impacting on the budget for 2023/24, will not result in the incurring of any additional costs or generate any additional income in the 2022/23 financial year. As a result, the decision will not impact on the budget approved by the Council for 2022/23.

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 2 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.	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. The Council also works closely with the other 5 North Wales authorities on the detailed assumptions used in the plan.
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 5 September 2022. 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 2023/24 – 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 two 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, the impact on the UK economy is still significant, with problems with supply chains having an inflationary effect. Other global issues, including the war in Ukraine, are also contributing to increased energy costs and supply chain difficulties, which again are having an impact on inflation. 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. All of these events will impact on future levels of public expenditure.
- 1.3. At the time of drafting the report, the election of a new Prime Minister had yet to be concluded, with the two candidates setting out different approaches to how to tackle the current economic difficulties of high inflation, slow growth and falling living standards. One candidate is promising immediate tax cuts and, if this revenue is not replaced by increased economic growth leading to higher tax revenues or additional borrowing, then cuts in public expenditure will follow. The second candidate is not proposing immediate tax cuts until inflation is brought back under control, but is proposing significant reductions in income tax over the remainder of the decade. Again, these tax cuts must have to be offset by increased growth and tax revenues, increased borrowing (unlikely) or cuts in public expenditure. Therefore, over the medium term, both the candidates are proposing a similar strategy of reducing tax levels in order to stimulate economic growth to offset the loss of revenue from reduced levels of taxation.
- 1.4. A comprehensive spending review was undertaken by the UK Government in the summer of 2021, and this set out the funding that the Welsh Government could expect over the subsequent three years (2022/23 to 2024/25). This review was undertaken before the current economic crisis began, and it is for the UK Government and the new Prime Minister to decide whether the review needs to be updated and whether more funding will be made available to the Welsh Government to meet the rising costs faced by the public sector in Wales.
- 1.5. Based on the results of the comprehensive spending review, the Welsh Government was able to provide an indicative figure for the increase in the all Wales Local Government settlement for 2023/24 and 2024/25, although the figures for each individual council would differ, depending on the output from the funding formula. The indicative figures showed an increase in the settlement of 3.6% in 2023/24 and 2.4% in 2024/25.
- 1.6. The Medium Term Financial Plan takes account of all known changes that are required to be built into the 2023/24 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 2022, the Council set the following budget:-

Table 1
2022/23 Revenue Budget

	£'m
2021/22 Final Net Revenue Budget	147.420
Contractual and Other Committed Changes	1.830
Pay and Price Inflation	4.706
Budget Pressures and Service Investments	4.411
Budget Savings	0.000
2022/23 Final Net Revenue Budget	158.367
Funded By:	
Aggregate External Finance	114.551
Council Tax (including Premium)	43.816
Reserves	0.000
Total Funding 2022/23	158.367

- 2.2. The Aggregate External Finance (AEF) increased by 9.22% (after adjusting for the change in the taxbase and grants transferred into the settlement). The Council Tax debit increased by 3.6%. The Band D charge increased by 2.0%, with the remainder of the increase in Council Tax debit as a result of the change in the taxbase and an increase in the second homes premium from 35% to 50%.
- 2.3. 2021/22 could not be considered as a normal operating year, with Council services continuing to be impacted by Covid, additional costs being incurred and income being lost. The Welsh Government provided significant additional funding to all local authorities, with Anglesey receiving £5.74m to cover additional costs, and £0.42m to cover lost income. In addition, a further £1.389m of Revenue Support Grant was received, along with various other hypothecated and unhypothecated grants.
- 2.4. At the end of the 2021/22 financial year, the Council reported a net underspend of £4.798m (3.25%), with all Services reporting an underspend against their budget. This resulted in an increase in the Council's general balances to £12.050m, which is equivalent to 8.17% of the 2021/22 net revenue budget. This compares to the target figure of £9.0m (6.11%) which was approved by the Executive.
- 2.5. 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 £23.182m at 31 March 2022, an increase of £7.726m during the year. The majority of the rise can be accounted for by additional unhypothecated Welsh Government funding, which was provided to help Councils to meet the cost of increasing demand and rising costs, funding transferred from general balances to undertake repairs to Canolfan Addysg y Bont, and unused revenue contributions for capital schemes.
- 2.6. School Balances also rose significantly during 2021/22, rising from £3.974m to £7.827m. This was, in part, due to the fact that schools were closed, or partly closed, during the early part of 2021/22 and also as a result of additional grant funding from Welsh Government, which was received late in 2021/22 but will not be spent until 2022/23. As schools begin the process of recovering from the pandemic, it is anticipated that these balances will fall significantly during 2022/23.

- 2.7. The Council received a significant increase in the level of Aggregate External Finance from Welsh Government, up £9.8m (9.23%) from the previous year, although there was an expectation from Welsh Government that part of the funding would be used to ensure that care providers were able to pay the real living wage to their staff, that homelessness prevention was at the same level as during the Covid lockdowns, that any Covid related costs were covered by the Council's core budget and that sufficient funding had been provided to cover the teacher's pay settlement from September 2022. Despite these additional funding requests, the additional Welsh Government funding allowed for over £2.7m of additional investment in services, to increase demand led budgets by over £0.6m and allowed the Council to raise Council Tax by only 2%.

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 approaching £2.4 trillion (as at July 2022), which is 95.5% of the country's GDP. This compares to £2.2 trillion (as at July 2021), which was 94.1% of GDP.
- 3.3. During 2021/22, the Government borrowed £144bn, compared to £309bn in the previous financial year, and has already borrowed a further £51.9bn in 2022/23 (up to July 2022).
- 3.4. As the economy reopened and people started spending money in shops, inflation (Consumer Prices Index) began to rise, from 2.1% in June 2021 to 4.9% in December 2021. However, the war in Ukraine has significantly pushed up energy prices and, along with labour market shortages and supply chain difficulties still arising from Covid and Brexit, inflation has risen sharply over the first 7 months of 2022, reaching 10.1% in July 2022, and it is forecast to exceed 13% in October 2022 before beginning to fall back towards the Bank of England's target level of 2% by mid to late 2024.
- 3.5. The Bank of England base rate was cut to 0.1% in March 2020, and has remained at this very low level until the beginning of 2022. As inflation began to rise, the Bank of England's Monetary Policy Committee (MPC) has made small incremental increases in the base rate each month, and the current rate is 1.75%. It is forecast that interest rates will exceed 2% by the end of 2022, and peak at 3% in the second half of 2023 before beginning to fall back towards 2% in 2024 or 2025.
- 3.6. The economy is expected to fall into recession (two consecutive quarters of negative growth in GDP) by the end of 2022 until late 2023 and growth is not expected to be strong in 2024. Falling GDP results in falling tax revenues for the Government and increases the need for more borrowing or reductions in public expenditure.
- 3.7. The rise in inflation is mainly as a result of external factors, rather than from increased spending by consumers. The Bank of England has increased interest rates, which normally suppresses consumer driven inflation, but the situation faced by the UK at present is not as a result of consumer driven inflation and increasing interest rates may add to the cost of living crisis (higher mortgage repayments) and could suppress investment in the economy from the private sector. As the inflation is not driven by consumer demand i.e. people having too much disposable income, it is likely to result in workers seeking higher pay awards just to maintain their standard of living. This, in turn, adds to costs for manufacturers which, in turn, leads to higher prices, adding to the inflationary pressures.

- 3.8. The two candidates to become the next Prime Minister have two different strategies to deal with the current economic crisis. The first is to reduce the level of taxation to stimulate growth in the economy, which will then generate increased tax revenues to offset the reduction in taxation levels. Reducing personal taxation will also increase the level of disposable income people have to spend, which could stimulate the economy through increased consumer spending, but this may also generate consumer driven inflation. The second candidate is planning to maintain the current level of taxation and use the funding to help people with the cost of living crisis until inflation is under control, with tax cuts then following. Either way, the candidates are basing their plan on increased tax revenues from economic growth to offset tax cuts and allow spending to remain at the same level, or to reduce public spending in order to reduce borrowing.
- 3.9. In the short term, increases in borrowing or cuts to public expenditure will be required in order to fund tax cuts or more state help with the cost of living crisis. It is unclear whether there will be sufficient headroom in the UK's finances to increase public expenditure by the current inflation rate and still cut taxes or provide additional financial support to those worst affected by the cost of living crisis.
- 3.10. 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. After taking account of grants transferring into and out of the settlement and additional funding for new responsibilities, the local government settlement fell each year, in cash terms, between 2013/14 and 2019/20. It began to rise in 2020/21, but only exceeded the 2013/14 level in 2022/23, when the settlement increased by 9.4%. However, in real terms, the funding is still over 10% less than the 2013/14 level.
- 4.2. As the Welsh Government had been given indicative levels of funding following the Comprehensive Spending Review, it was able to announce the indicative all Wales local government funding settlements for 2023/24 and 2024/25, which were 3.6% and 2.4% respectively. However, it should be noted that these indicative figures were announced before the significant increase in inflation. It should also be noted that these were all Wales figures, and the increases for individual authorities would differ depending on how the funding formula distributes the all Wales funding between the individual authorities.
- 4.3. The fact that the published indicative increases are well below the expected level of inflation for 2023/24, and the fact that the 2022/23 budgets and settlement did not factor in the significant increases in pay and non pay inflation, has been raised with Welsh Government, and further work will be undertaken, in consultation with the WLGA, to quantify the impact of inflation on the level of funding required. It will be a matter for discussion between the Welsh Government and the UK Government as to how the funding of pay and non pay inflation is addressed in future settlements but, without further UK Government funding, it will be very difficult for the Welsh Government to increase the Welsh local government settlement significantly above the indicative figures already published.

5. NATIONAL AND LOCAL BUDGET PRESSURES

- 5.1. Local Government generally is facing a number of budget pressures, particularly in Social Care and Homelessness. Wales Fiscal Analysis estimate that the budget pressures faced by local authorities in Wales is around £380m in 2023/24 and a further £230m in 2024/25. Based on the indicative levels of increases in the Welsh local government settlement and an annual increase of 4% in Council Tax, this still leaves a shortfall of £80m in 2023/24 and £145m in 2024/25. It should be noted that these figures do not take into account the effect of the 2022/23 proposed pay award for NJC staff and teachers.

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 2022/23, the current offer is a flat rate increase of £1,925 for all employees. This increases each pay point, from 10.2% for the lowest pay point to 3.4% for the highest pay point. This equates to an average increase of 7.5% for all staff. The same offer has been made to the Chief Officers, and this gives a range in the pay award of between 1.6% and 2.4%. In setting the 2022/23 budget, an increase of 2% was allowed for with an additional £0.625m held as a contingency budget, which equates to a funding increase of around 3.2% (£1.7m). If the 2022/23 pay offer is accepted and implemented, it will increase the costs by £4m and will require an additional £2.3m in funding to correct the opening budget for 2023/24. An assumed pay award of 3.5% in 2023/24 will add a further £2m to the non teaching pay cost. Therefore, the estimated increase in the 2023/24 budget is £4.3m higher than the 2022/23 budget.

ii. Pay Increases – Teachers Pay

Teachers pay is set by the Welsh Government, with the pay award being effective from September each year. In the 2022/23 local government settlement, the Welsh Government stated that the funding had taken into account the full cost of the estimated pay award, but the actual sum allowed for was not disclosed. The proposed pay award is 5% effective from September 2022. This is estimated to increase the teaching pay bill by £940k. The 2022/23 budget allowed for an increase of £600k and, as such, a further £340k will be required to correct the teaching pay budget and a further £695k to fund the increase from April 2023 to August 2023. The announcement on teachers' pay also indicated that the pay award effective from September 2023 would be 3.5%, which will add a further £696k from September 2023 to March 2024. This results in the 2023/24 budget having to be £1.73m higher than the 2022/23 budget.

iii. Local Government and Teachers' Pension Contributions

A revaluation of the Local Government Pension Scheme is currently taking place, which may result in a change in the main employers' contribution rate. The results of the revaluation will not be known until late October 2023, but early indications suggest that there will be no change. Every 1% increase in the contribution rate adds around £420k to the costs.

The Teachers Pension Scheme is due for revaluation in September 2023, and there is a significant risk that the contribution rate will rise significantly. Each 1% rise in the contribution rate increase the costs by approximately £230k.

iv. Major Service Contracts

A number of the Council's Services are outsourced, including refuse collection and disposal, highway maintenance, school meals, 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 price of each contract is uplifted annually using a set of pre-determined inflation indices which are defined in each contract. As a result, the current high level of inflation will feed through to each contract in 2023/24. The budget for these contracts is in the region of £20m, and a 10% inflationary rise would add around £2m to these costs in 2023/24.

v. Energy Costs

The current budget for energy (electricity and gas) in 2022/23 was £2.5m (£1.7m for electricity and £0.8m for gas), with the highest costs incurred in secondary schools, leisure centres and the main Council offices. Much work has been done to reduce the consumption of energy in Council buildings, including installing solar panels and a new boiler at the Council Offices. These changes will reduce costs, but a significant increase is expected in the corporate energy contracts when they are renewed later this year. The Council is currently tied into a framework agreement until September 2024 for both electricity and gas, with prices updated each October. The early indications are that electricity rates will rise by around 60% in October 2022 and gas prices by 160%. It will be necessary to correct the 2022/23 budget and allow for the price increases in 2023/24, including any further price increase in October 2023. Therefore, there is a potential for energy costs to increase by over £2m in 2023/24, with a similar rise in 2024/25. Much will depend on the outcome of the war in Ukraine and whether energy prices begin to fall if, and when, the war ends.

vi. 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. Initially for 2022/23, fees increased between 7% and 12%, and these increases took account of the Welsh Government's requirement that fee increases were sufficient to allow providers to pay the national living wage. However, the sharp increase in inflation resulted in representations from the Care Home Sector, and the Executive agreed to increase the fees again from July 2022. The additional increase meant that the fees increased by between 8% and 25% compared to the 2021/22 fees. This creates an additional cost of £323k which needs to be corrected in the 2023/24 budget. Inflation and rising wage costs will continue to be an issue in 2023/24 and a further significant rise in fees is anticipated.

vii. Domicilliary Care Contract

This contract is due for renewal, with the new contract due to commence in June 2023. The current budget is in the region of £4.5m, and it is anticipated that the contract costs will rise in the region of 15%, which takes account of the need to ensure that contractors can pay the real living wage and to take account of increased fuel costs (pay and fuel are the two main costs under this contract).

viii. Children's Services

The Council has made significant progress in recent years to bring the cost of its Children's Services within its budget. However, 2022/23 has seen an increase in the number of children being placed and increases in the fees charged by providers for out of county residential placements. It is currently forecasted that Children's Services will overspend its budget by £0.7m. An additional Cartref Clyd will become operational and it is hoped to secure grant funding to meet the running costs, and this may reduce the deficit, but it is estimated that an additional £1m will be required for this budget in 2023/24.

ix. Adult Social Care Services

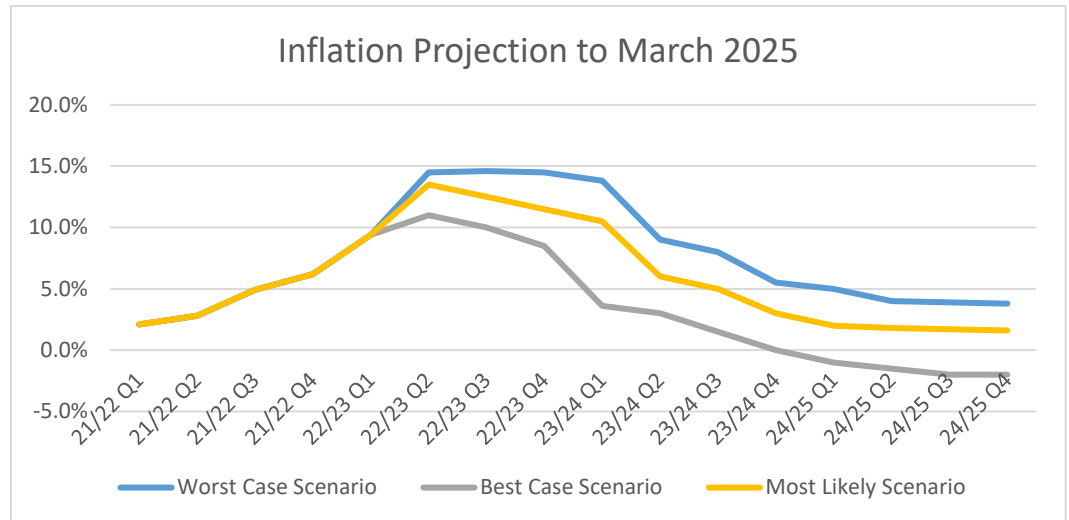
As with Children's Services, there is a significant risk that the demand for Adult Social Care services (elderly, mental health, learning disability etc.) will increase. This is in addition to the inflationary pressures on pay and private sector provider costs. The budget is forecast to overspend £0.75m in 2022/23, but this is after allocating grants and the use of reserves. The true figure is probably closer to £3.5m to £4m.

- x. Homelessness**
Since the pandemic, the number of cases being dealt with by the Service has increased and, in the 2022/23 settlement, the Welsh Government included additional funding to meet the cost of the additional demand. As a result, the Council included an additional £350k in the budget, increasing the budget to around £700k. In addition, the Welsh Government provided an additional £180k in grant funding. However, since the budget was set, the situation has worsened with a number of private landlords leaving the market. In addition, the Council has taken in a number of refugees from Ukraine, which are also placing additional demands on the availability of suitable rented accommodation. This situation is not unique to Anglesey, all councils across Wales are dealing with the same pressures. It is likely the cost of living crisis will add to the problem as tenants find it harder to pay rent as well as increasing energy and food costs. The Service is looking at all options to increase the supply of private sector rented accommodation and to reduce the number of cases.
- xi. School Transport**
School transport budgets are under increasing pressure as operators struggle with increasing fuel prices, an ever growing demand for transport for pupils who are outside the normal statutory provision and the fact that the bus contracts will be tendered in October, with taxi contracts due to be re-tendered in January. The current budget is around £1.3m, and an increase of between 10% and 20% in the budget requirement is not an unreasonable assumption, due to higher rates from contractors and increasing demand.
- xii. Council Tax Reduction Scheme**
Since the funding for the Council Tax Reduction scheme transferred into the local government settlement, the sum included in the Standard Spending Assessment by Welsh Government has remained largely unchanged. As the levels of Council Tax increase, the cost falls on the taxpayers of Anglesey. The economic forecasts suggest a gradual increase in unemployment, which will lead to an increasing caseload. It is unclear whether the cost of living crisis results in a level of lower consumer demand, which impacts on the retail and service industries. This may lead to increased unemployment in these areas. Each 1% increase in the caseload increases the cost by approximately £60k, in addition to the increase as a result of increasing Council Tax.
- xiii. 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 Corn Hir 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 increases 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.

xiv. 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. For a number of years, CPI has remained low and has not been a significant factor when determining the budget. However, CPI has risen significantly in 2022 and is expected to remain high for most of 2023 and 2024. The graph below shows the Bank of England's current forecast:-



Approximately £30m of the Council's budget will be impacted by a general increase in the level of inflation. It will be necessary to correct the under provision in the 2022/23 budget and also allow for inflation in 2023/24. Based on the most likely scenario shown above, it will require an increase of 16% in these budgets to cover the inflationary pressure. This equates to an increase in the budget requirement of approximately £5m.

6. INCOME

- 6.1.** The Council's current income budget (excluding AEF, Council Tax and specific grant funding) amounts to £42.8m. This is made up of grants and reimbursements from public bodies (£20.4m), fees and charges set by statute or regulated by the Government (£6.7m), fees and charges set by the Council (£5.1m), long-term rental agreements (£1.3m) and recharges within the Council to other Council services (£9.3m).
- 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.
- 6.3.** When inflation has been low, the statutory or regulated fees tended to increase by the rate of inflation, however, given that inflation is significantly higher, this normal rise in these fees may not be implemented and a lower increase may result.

- 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, 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.

7. PROJECTED BUDGET FOR 2023/24 – 2024/25

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

Table 2
Projected Net Revenue Expenditure Budget 2023/24 to 2024/25

	2023/24 £'m	2024/25 £'m
Previous Year Final Budget	158.367	176.514
Non Teaching Pay Award	4.292	1.682
Teaching Pay Award	1.725	1.394
Major Service Contracts	1.925	0.687
Energy Inflation	2.955	2.023
Other Non Pay Inflation	5.607	1.361
Income	(2.117)	(1.415)
Social Care Providers Inflation	1.906	1.086
Children's Services Demand	0.497	0.519
Adult Services Demand	0.521	0.543
School Transport	0.212	0.055
Homelessness	0.173	0.043
Council Tax Reduction Scheme Caseload	0.126	0.129
Other Budget Pressures	0.325	(0.104)
Estimated Net Revenue Budget	176.514	184.517
Annual Increase	18.147	8.003
Annual Increase Percentage	11.46%	4.53%

- 7.2. The estimated Net Revenue Budget represents an increase of 16.5% over the 2 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 are based on the most likely scenario for all the assumptions. The best case and worse case scenarios have also been modelled, which show an increase in the net revenue budget of £7.1m (4.5%) in 2023/24 and £2m (1.3%) in 2024/25 under the best case scenario, and an increase of £33.0m (21%) in 2023/24 and £19.9m (10%) in 2024/25 under the worst case scenario. The 3 scenarios give a wide range of estimates for the required net revenue budget for the forthcoming two years, and it demonstrates the significant level of uncertainty that exists around inflation and the future demand for services. This makes financial planning extremely difficult.

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 Welsh Government has provided indicative increases for both 2023/24 and 2024/25, however the figures were based on the position prior to the sharp increase in inflation. The indicative rises were 3.6% in 2023/24 and 2.4% in 2024/25.
- 8.3. In 2022/23, Anglesey received £114.551m in Aggregate External Finance from the Welsh Government, with the remaining £43.816m being generated from Council Tax.
- 8.4. Table 3 below shows the additional income that various changes in AEF and increases in Council Tax would have on the Council's funding (assuming no change in the Council Tax base) and that any additional funding generated by increase in the Council Tax premium would be used to increase budgets on projects to help with the supply of affordable housing on the Island i.e. have a nil effect on the budget.

Table 3
Impact on Council Funding for Changes in AEF and Council Tax 2023/24

		Change in AEF Cash Sum							
		+3%	+4%	+5%	+6%	+7%	+8%	+9%	+10%
		£'m							
Council Tax Rise (net of rise in CTRS)	3%	+4.75	+5.90	+7.04	+8.19	+9.33	+10.48	+11.62	+12.77
	4%	+5.19	+6.33	+7.48	+8.63	+9.77	+10.92	+12.06	+13.21
	5%	+5.63	+6.77	+7.92	+9.06	+10.21	+11.35	+12.50	+13.65
	6%	+6.06	+7.21	+8.36	+9.50	+10.65	+11.79	+12.94	+14.08
	7%	+6.50	+7.65	+8.79	+9.94	+11.09	+12.23	+13.38	+14.52
	8%	+6.94	+8.09	+9.23	+10.38	+11.52	+12.67	+13.81	+14.96
	9%	+7.38	+8.53	+9.67	+10.82	+11.96	+13.11	+14.25	+15.40
	10%	+7.82	+8.96	+10.11	+11.25	+12.40	+13.55	+14.69	+15.84

9. GENERAL BALANCES AND RESERVES

- 9.1.** The Council holds general balances to have sufficient funding to meet any unexpected expenditure which may arise during the year, which cannot be funded from existing revenue or capital budgets. In addition, the Council holds earmarked reserves which are held to cover the cost of potential risks, the cost of future planned projects and to hold unused grant funding or any other restricted funds which the Council holds. Since 2021/21, each Service can also hold its own specific service reserve, created from underspending in the previous year, which can be used on specific projects identified by the Head of Service, which meet specific criteria. The maximum level of service reserves that can be held by any one service is 2.5% of the net revenue budget, or £75k, whichever is the higher.
- 9.2.** As at 31 March 2022, the Council held £12.05m as general balances and £23.181m as earmarked reserves. The Council's agreed strategy for general balances is to hold a minimum of 5% of the net revenue budget for the year. Therefore, in 2022/23, the minimum amount of general balances should be £7.92m. During 2022/23, the Council has committed to use £0.76m of general balances, which reduces the level of general balances to £11.29m, which is £3.37m above the minimum required balance. However, it should be noted that any overspend on the 2022/23 revenue budget would be funded from general balances and there is a risk that, by the end of the 2022/23 financial year, the amount of general balances will be closer to the 5% minimum balance.
- 9.3.** A review of the earmarked reserves found that around £1.4m could be transferred back to general balances. A further £7m of reserves have planned uses but no formal commitment has been made, and could be used as an additional source of funding if required. The remaining £14.6m are required to cover potential future risks, have already been committed or the use of the fund is restricted to the identified purpose.

10. BRIDGING THE FUNDING GAP

- 10.1.** If the financial modelling is correct, then an additional £18.15m will be required to meet the inflationary pressures of providing the current service and to meet the demand pressures in 2023/24, although it should be noted that this figure is based on assumptions, which will need revising as the budget process progresses.
- 10.2.** It can be seen from Table 3, even with a 10% increase in both AEF and Council Tax, the additional funding will not be sufficient to fund the additional costs. If the AEF rises by the indicated 3.6% and if Council Tax were to rise by 5%, then this would only generate £6.3m in additional funding, leaving an £11.85m funding gap.
- 10.3.** As shown in paragraph 9, the Council does have some capacity to use general balances and reserves to help reduce the funding gap, but using reserves does come with risks in so far as they are not a recurring source of income and using reserves, does not eliminate the need to bridge the funding gap long term. In addition, using reserves, reduces the financial reserves of the Council and weakens its financial position. Care must be taken to ensure that the level of reserves used does not leave the Council in a position where it has insufficient funding to meet any unexpected expenditure, or to address potential risks if they crystallise into something that requires action and funding.
- 10.4.** The Council is legally obliged to set a balanced budget each year, where the budget is a fair and reasonable estimation of the costs faced to provide the services in the year to which the budget relates, and that the estimated cost can be funded from Welsh Government funding, Council Tax and reserves and balances. If the level of funding is insufficient, that only leaves the option of reducing the net expenditure budget to the level of funding available.

10.5. Again assuming that the funding gap is £11.85m, that equates to revenue savings of 7.5% of the 2022/23 net expenditure budget. However, the net revenue budget includes a number of budgets which are outside the control of the Council and must be funded, these include:-

- Fire Authority Levy – £3.96m in 2022/23
- Capital Financing Costs – £7.21m in 2022/23
- Council Tax Reduction Scheme – £6.30m in 2022/23
- Historic Pension Costs – £1.06m in 2022/23
- Local Government Scheme Annual Deficit Payment – £0.84m in 2022/23
- Members Allowances – £0.96m in 2022/23
- Audit & Inspection Fees - £0.37m in 2022/23
- Coroners Costs - £0.20m in 2022/23
- Joint Services with Other Local Authorities - £2.42m in 2022/23

10.6. Therefore, any savings have to come from the remaining budgets (£135m in 2022/23) and this equates to savings of 8.8% from the budgets where it is possible to implement savings.

10.7. As part of the budget preparation process for 2021/22, services were requested to identify potential savings, although it was not necessary to implement these savings as additional funding was received from Welsh Government. The proposals identified £3.1m in savings, although £1.5m of these proposals were not supported by Members at the time. £0.9m required further work before they could be implemented. Of the remaining £0.6m, some may have already been implemented or the situation may have changed making it not possible to implement the proposal. However, the process did show that the number of savings proposals that can be implemented are few in number and will not generate the potential savings requirement. In order to achieve the reduction in the net expenditure budget that may be required, significant changes will be required in the way services are delivered and / or some services will have to be reduced significantly or stopped altogether.

10.8. Looking ahead to 2024/25, the AEF and Council Tax would generate an additional £5.148m (based on a rise of 2.4% in AEF and 5% in Council Tax), which would take the available resources up to £169.83m, when the estimated net revenue budget to fund the current level of service and demand pressures would be £184.52m, leaving a shortfall of £14.69m. £11.85m of this figure relates to the budget shortfall carried forward from 2023/24, leaving an additional £2.84m shortfall in the 2024/25 budget.

11. CONCLUSIONS

11.1. The Medium Term Financial Plan sets out the estimated net revenue budget for the next 2 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 costs at a time of rapidly increasing inflation, estimating the demand for services as the country continues to move out of the pandemic and into a recovery phase, the impact of the cost of living crisis on the demand for Council services and the future funding of Local Government in Wales following the appointment of a new Prime Minister and new economic strategy for the UK. 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.

11.2. 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 2023/24. 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.

MEDIUM TERM FINANCIAL PLAN ASSUMPTIONS

MOST LIKELY SCENARIO		
	2023/24	2024/25
Pay and Price Inflation		
Pay, NI and Pension Costs – Non Teaching	7.8%	3.0%
Pay, NI and Pension Costs - Teachers	5.2%	3.2%
LGPS Contribution Rate	0.0%	0.0%
Teachers Pension Contribution Rate	0.0%	4.9%
Electricity	75.5%	20.0%
Gas	200.0%	57.5%
CPI	16.4%	1.8%
Main Service Contracts	7.0% - 15.0%	3.0% to 7.0%
Social Care Provider Contracts	5.0% - 15.0%	3.0%
Fees & Charges	3.0% - 5.0%	3.0%
Council Tax	5.0%	5.0%
Aggregate External Finance	3.6%	2.4%
Government Grants	3.6%	2.4%
Levies	8.0%	5.0%
Capital Financing Costs	0.0%	0.0%
Demand Pressures		
Children's Placements	9.0%	9.0%
Adult Social Care Placements	1.0% - 3.5%	1.0% - 3.5%
School Transport	15.0%	3.0%
Homelessness	25.0%	5.0%
Council Tax Reduction Scheme Caseload	2.0%	2.0%

SUMMARY ESTIMATED NET REVENUE BUDGET 2023/24 – 2024/25

	2022/23 £'m	2023/24 £'m	2024/25 £'m
Pay – Non Teaching incl Pension & NI	55.096	59.488	61.171
Pay – Teaching incl Pension & NI	33.000	34.726	36.120
Other Employee Costs	4.606	5.039	5.106
Premises Costs	6.650	7.793	7.880
Energy	2.567	5.522	7.545
Transport	1.276	1.486	1.513
Supplies & Services	20.660	23.980	24.374
School Transport	3.311	4.011	4.178
School Meals	1.884	2.016	2.076
Education Out of County Placements	0.849	0.900	0.935
Education Joint Arrangements	2.319	2.488	2.564
Adult Social Care	24.588	26.761	28.107
Children's Care Placements	7.128	7.878	8.681
Refuse Collection & Disposal	7.460	7.924	8.162
Highway Maintenance & Street Lighting	4.088	4.404	4.553
Public Service Bus Transport	1.328	1.527	1.573
Help for 1 st Time Buyers	0.697	0.732	0.768
Homelessness	0.691	0.978	1.038
Members Allowances & Expenses	0.965	1.004	1.034
Coroners	0.201	0.207	0.213
Fire Service & Other Levies	3.957	4.274	4.488
Council Tax Reduction Scheme & Other Benefits	6.486	6.927	7.393
Capital Financing Charges	7.209	7.209	7.209
Contingencies	2.110	1.623	1.666
TOTAL GROSS EXPENDITURE	199.126	218.897	228.347
Grants	(20.373)	(20.931)	(21.718)
Fees & Charges	(11.781)	(12.214)	(12.606)
Recharges	(7.281)	(7.874)	(8.101)
Rents	(1.324)	(1.364)	(1.405)
TOTAL GROSS INCOME	(40.759)	(42.383)	(43.830)
NET REVENUE EXPENDITURE	158.367	176.514	184.517
Increase in Net Revenue Budget		+18.147	+8.003
% Increase in Net Revenue Budget		+ 11.46%	+4.53%

SUMMARY ESTIMATED NET REVENUE BUDGET BY SERVICE 2023/24 – 2024/25

	2022/23 £'m		2023/24 £'m		2024/25 £'m	
Economic Development	0.861		0.947		0.975	
Destination	0.701		0.819		0.840	
Leisure	0.651		1.220		1.550	
Planning	0.881		1.033		1.055	
Public Protection	1.524		1.684		1.738	
Regulation		4.620		5.703		6.158
Highways	6.892		7.778		8.015	
Property	1.508		2.016		2.175	
Waste	9.164		10.122		10.457	
Highways, Waste & Property		17.564		19.916		20.647
Adult Services		29.964		33.486		35.237
Children's Services		11.715		13.116		14.094
Schools	44.919		49.778		52.570	
Central Education	11.215		13.452		13.858	
Culture	1.270		1.572		1.689	
Education & Culture		57.404		64.801		68.117
Human Resources	1.475		1.625		1.668	
ICT	3.704		4.157		4.231	
Transformation	1.029		1.114		1.142	
Transformation		6.208		6.896		7.041
Housing		1.914		2.329		2.428
Resources		3.429		3.760		3.868
Council Business		1.822		2.010		2.063
Corporate Management		0.736		0.794		0.818
Capital Financing	7.209		7.209		7.209	
CTRS / Benefits	6.486		6.927		7.397	
Levies	3.957		4.274		4.488	
Non Service Employee Costs	1.602		1.630		1.641	
Other Non Service Budgets	0.627		0.811		0.638	
Contingencies	3.110		2.851		2.671	
Non Service		22.991		23.701		24.046
TOTAL NET EXPENDITURE		158.367		176.514		184.517