

## ISLE OF ANGLESEY COUNTY COUNCIL

<b>REPORT TO:</b>	<b>EXECUTIVE COMMITTEE</b>
<b>DATE:</b>	<b>24 JANUARY 2023</b>
<b>SUBJECT:</b>	<b>DRAFT REVENUE BUDGET 2023/24</b>
<b>PORTFOLIO HOLDER(S):</b>	<b>COUNCILLOR ROBIN W WILLIAMS – PORTFOLIO HOLDER – FINANCE, CORPORATE BUSINESS &amp; CUSTOMER EXPERIENCE</b>
<b>HEAD OF SERVICE:</b>	<b>MARC JONES – DIRECTOR OF FUNCTION (RESOURCES) / SECTION 151 OFFICER</b>
<b>REPORT AUTHOR:</b>	<b>MARC JONES</b>
<b>TEL:</b>	01248 752601
<b>E-MAIL:</b>	rmjfi@ynysmon.gov.wales
<b>LOCAL MEMBERS:</b>	n/a

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

The final budget will not be approved by the full Council until 9 March 2023, however, at this point, the Executive is recommended to approve the following:-

- (i) The initial proposed budget for 2023/24 of £172.438m;
- (ii) A proposed increase in Council Tax of 5%, taking the Band D charge to £1,435.86;
- (iii) To formally propose an increase in the premium on second homes from 50% to 75%;
- (iv) That £1.758m is released from the Council's general balances in order to balance the 2023/24 revenue budget.

The detailed report on the preparation of the 2023/24 standstill budget, the provisional settlement and funding the budget gap is attached as Appendices 1 and 2.

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

A number of options have been considered in reaching the proposed budget detailed in this report. The options took into account the level of net expenditure based on the draft settlement from Welsh Government and options relating to the level of Council Tax. The proposed budget aims to strike a balance between reducing Services and raising Council Tax.

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

The setting of the initial budget proposal is a matter delegated to the Executive.

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

Yes. The final decision on the 2023/24 revenue budget will be taken by the full Council at its meeting on 9 March 2023.

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

Yes. The final decision on the 2023/24 revenue budget will be taken by the full Council at its meeting on 9 March 2023.

<b>Dd – Assessing the potential impact (if relevant):</b>		
<b>1</b>	How does this decision impact on our long term needs as an Island?	This is an initial budget proposal which will be reviewed prior to setting and approving the final budget for 2023/24. 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.	As part of the Council's consultation on the Corporate Plan for 2023 – 2027, a number of questions were asked regarding the Council's budget for 2023/24. The details of the responses are set out in the report.
<b>5</b>	Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.	Any proposals included in the draft budget for 2023/24 will take into account the impact on any protected groups.
<b>6</b>	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.
<b>7</b>	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.
<b>E - Who did you consult?</b>		<b>What did they say?</b>
<b>1</b>	<b>Chief Executive / Leadership Team (LT)</b> (mandatory)	Comments from the LT have been incorporated into the report.
<b>2</b>	<b>Finance / Section 151</b> (mandatory)	n/a – this is the Section 151 Officer's report.
<b>3</b>	<b>Legal / Monitoring Officer</b> (mandatory)	The Monitoring Officer is a Member of the LT and any comments made have been taken into account in discussions on this report in the LT.
<b>4</b>	<b>Human Resources (HR)</b>	Any proposals which impact on staff will have been identified and discussed with the HR Team.
<b>5</b>	<b>Property</b>	Any proposal which impacts on the Council's property and related budgets will have been discussed with the Property Team.
<b>6</b>	<b>Information Communication Technology (ICT)</b>	Any proposal which impacts on the Council's information technology systems and related budgets will have been discussed with the ICT Team.
<b>7</b>	<b>Scrutiny</b>	TBC
<b>8</b>	<b>Local Members</b>	Proposals are applicable to all Members.
<b>9</b>	<b>Any external bodies / other/s</b>	

**F - Appendices:**

- Appendix 1 – Report on Draft Revenue Budget 2023/24
- Appendix 2 – 2023/24 Proposed Budget by Service

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

- Medium Term Financial Plan 2023/24 – 2024/25 – See Executive Meeting Agenda 27 September 2022 – Item 11

**DRAFT REVENUE BUDGET 2023/24****1. INTRODUCTION**

- 1.1. The following report sets out the Executive's provisional revenue budget for 2023/24. The budget is prepared on the basis of the assumptions set out in the Medium Term Financial Plan (MTFP) approved by the Executive in September 2022, the provisional local government settlement which was issued by the Welsh Government on 14 December 2022. The report also outlines the proposed revenue savings which have been identified by the individual services and have been discussed by the Leadership Team, individual Portfolio Holders and the Executive.
- 1.2. Following receipt of the final settlement figures on 28 February 2023, the final budget proposal will be subject to a review by the Scrutiny Committee on 28 February 2023, and will be recommended for approval by the Executive on 2 March 2023, with the final 2023/24 budget being approved by the Council at its meeting on 9 March 2023.

**2. MAIN ASSUMPTIONS ARISING FROM THE MEDIUM TERM FINANCIAL PLAN**

- 2.1. The Medium Term Financial Plan sets out a number of assumptions and these assumptions have been taken into account in calculating the standstill budget for 2023/24. The standstill budget is a budget which provides resources to operate services at 2022/23 levels but updated to reflect any known changes outside the control of the services (committed changes) and to reflect the estimated costs in 2023/24.
- 2.2. These assumptions have been factored into the standstill budget, along with more detailed changes (committed changes) which allow for known increases in costs e.g. contractual commitments and minor budget corrections. The draft budget also allows for additional funding, known changes to grant funding and minor budget corrections deemed necessary to ensure that the Council's budget accurately reflects the costs it faces in 2023/24.

**3. PROVISIONAL SETTLEMENT**

- 3.1. The provisional settlement for Local Government in Wales, announced on 14 December 2022, shows an increase of £406.2m in the overall level of funding for Wales, which is equivalent to an 8.0% increase in cash terms. However, £3.0m relates to grants transferred in and, when the effect of these changes are adjusted for, the true figure shows an increase in funding of £403.2m, which is a 7.9% increase. The details are shown in Table 1 below:-

<b>Table 1</b>		
<b>2023/24 Provisional Settlement</b>		
	<b>Anglesey</b>	<b>Wales</b>
	<b>£'m</b>	<b>£'m</b>
2022/23 AEF	114.551	5,107.603
Adjustment for the Change in the Taxbase	(0.061)	0.000
Previous Years Grants Transferred In / (Out)	0.000	3.040
<b>2022/23 Adjusted AEF</b>	<b>114.490</b>	<b>5,110.643</b>
<b>Provisional AEF 2023/24</b>	<b>123.555</b>	<b>5,513.888</b>
<b>Increase in comparison to 2022/23 AEF</b>	<b>9.004</b>	<b>406.285</b>
<b>% Increase in comparison to 2022/23 AEF</b>	<b>7.86%</b>	<b>7.95%</b>
<b>Increase in comparison to 2022/23 adjusted AEF</b>	<b>9.065</b>	<b>403.245</b>
<b>% Increase in comparison to 2022/23 adjusted AEF</b>	<b>7.92%</b>	<b>7.89%</b>

3.2. A number of various datasets are adjusted in the allocation formula, including population, the number of people in receipt of benefits, children in receipt of free school meals, school pupils etc., and these impact on the allocation to each authority differently. Some authorities fair better from these adjustments, whilst others are impacted negatively and, as a result, not every authority receives the same level of increase. In the 2023/24 provisional settlement, there is a range of increases from 9.3% (Monmouthshire) down to 6.5% (Blaenau Gwent). Anglesey's increase is on the Welsh average, and the 12th highest increase from the 22 authorities.

#### 4. MAIN BUDGET CHANGES FOR 2023/24

4.1. The major changes between the 2022/23 final budget and the 2023/24 initial budget are detailed below.

##### 4.2. Pay Inflation and Other Staffing Pressures

Pay costs will change annually to reflect the changes in staff over the year (new staff being appointed to a different point on the pay scale), staff receiving annual increments and the pay award. The 2022/23 pay award, effective from April 2022 was not agreed until November 2022 and, although an estimated sum was included in the 2022/23 budget, it did not fully reflect the actual pay award. The budget allowed for a 2% increase in pay budgets, with a further £1m included as a contingency, this equated to an increase of 3.2% in pay budgets. The final pay award was set as an increase of £1,925 per employee, and this gave a range of increases from 10.2% for the lowest point on the payscale to 3.4% for the highest point on the payscale. On average, the pay award resulted in a 7.5% increase in the Council's non-teaching pay costs. This resulted in an under provision of £1.9m in the 2022/23 budget, which must be corrected in the 2023/24 standstill budget.

The teacher's pay award was also not announced when the Council's budget for 2022/23 was set. Again, the Council allowed for 2% for the teacher's pay increase from September 2022. The final pay award was set at 5%. This has resulted in a shortfall of £926k in the Council's budget which, again, has to be corrected in the 2023/24 standstill budget.

No information is currently available for the likely pay award for non teaching staff which is applicable from April 2023, although the Welsh Government has indicated that the teacher's pay award, applicable from September 2023, is 3.5%. The final pay award is very much dependant on what happens to inflation during 2023/24, but a significant fall is anticipated, with inflation falling from 10% at the beginning of 2023/24 to around 4% by March 2024. Given that there will be pressure on the Unions to accept a lower pay award in 2023/24, falling inflation and the indicated increase in teacher's pay, 3.5% has been allowed for in the standstill budget for the pay awards for teaching and non-teaching staff in 2023/24, although there is a considerable risk that the final pay award may be higher than this figure. If that is the case, the Council will have to fund any excess costs from its own reserves in 2023/24 and then correct the funding shortfall in the 2024/25 budget.

The UK Government has reversed the proposed increase of 1.25% in the employer's national insurance contributions from November 2022. This allows the employer's national insurance budget to be corrected, reducing the starting budget by £260k. The need to correct the pay budget and the pay award for 2023/24 then increases the employer's national insurance contributions, but the reduction in the contribution rate reduces the overall budget. The net effect of the increase in pay and the reduction in the contribution rates is to reduce the national insurance budget by £140k.

The pay budget is also adjusted to reflect the actual pay point which each current member of staff will be paid during 2023/24. This takes account of any staff increments but also any staffing changes as a result of staff leaving and new staff joining the Council, and any staffing restructures that may have taken place during the current financial year.

The estimated cost of all the changes relating to pay is an increase £6.00m in the budget requirement.

#### **4.3. Pension Costs**

The Council enrolls its staff into the Local Government Pension Scheme (LGPS) for non-teaching staff and the Teacher's Pension Scheme for teachers. The employer's contribution scheme is set by the Administrator of the scheme and is subject to regular revaluations.

The LGPS scheme was revalued during 2022/23, with the new contribution rates coming into effect from April 2023 for a period of 3 years. The scheme sets 2 rates, a primary rate which is designed to fund the pension costs accrued for staff related to the current and future service, and a secondary rate which covers any funding shortfalls in the fund.

For 2023/24, the primary rate will increase from 19.3% to 21.1%, but the secondary rate will fall from 2.1% to -1.0%. The increase in the primary rate increases the employer contribution (prior to the pay award) by £732k, but the reduction in the secondary rate reduces the contribution by £1.24m, thus giving a net saving on employer pension contributions of £508k.

However, the increase in pay does increase the employer's contributions as the pay increases. This is estimated at around £600k in additional contributions.

The Council continues to make annual contributions for staff and teachers who may have retired early a number of years ago. A rule change in the mid 2000s stopped the practice of paying for early retirements through an annual charge, and so this budget is slowly decreasing as the pensioners sadly pass away. This has allowed a reduction of £108k in this budget.

#### 4.4. Non Pay Inflation

For a number of years, the level of inflation in the UK has been low and very simple to estimate. However, inflation has risen significantly in 2021, with the Consumer Prices Index (CPI) rising to 11.1% in October 2021, with higher increases for certain goods, including energy, food, fuel and building materials. Generally, inflation forecasts show that inflation will peak at the end of 2022 and then begin to fall in 2023, returning to the levels seen during the past 3 decades during 2024/25. The rate at which it falls will be dependent on a number of factors, including the war in Ukraine and its continuing impact on energy costs, pay settlements in both the public and private sector, and whether Brexit continues to have an impact on the cost of imported goods from Europe.

The Council's non pay costs are made up of a number of different contracts and procurement methods, all of which are affected by inflation in different ways:-

- Long term contracts where the inflation calculation is incorporated into the contract using pre-determined inflation indices, and using the figure as at a particular point in time. These type of contracts tend to favour the Council when inflation rates are rising, but they do reflect what is happening with particular types of goods which impact on the contractor's costs, e.g. the inflation factor for the refuse collection contract will be heavily linked to the cost of fuel as this is a major cost for the contractor.
- Contracts where the annual increase is negotiated. These include residential and nursing care home fees and other care contracts. CPI is not the main factor on these price increases as the main cost is staffing. The level of inflation is linked to pay and in particular, the increase in the national living wage and the real living wage.
- Long term framework agreements where the annual price is set by the framework and not as part of an individual agreement between the Council and the supplier / contractor. These include our main energy contracts. Again, the price increase will be linked to specific factors relating to the goods supplied, rather than using CPI as the basis for the increase.
- Goods and services that are purchased as and when required, either through a one off tender process, obtaining quotations or simply by placing an order. These costs are subject to inflationary pressures as the price the Council pays is dependent on the price at the time the order is placed or tender received.

In drawing up the standstill budget, the level of inflation as determined by a specific contract has been allowed for. The fact that the inflationary increases in the Council's main contracts are based on inflation levels in the Autumn of the preceding year (Autumn 2022 inflation is used to uprate contract rates from April 2023) has worked against the Council and increases in excess of 20% have been allowed for.

The Council purchases gas and electricity through a framework agreement, with the prices being reviewed in October of each year. The unit rate for gas rose in October by 255% with a 110% increase in the standing charge. Electricity unit rates rose by 75% with a 145% rise in the standing charge. The Council still has a small number of properties which are heated by LPG or heating oil, and the costs are based on the day when the purchase is made but, generally, these costs have risen by around 50% since 2021/22. However, part of this increase was allowed for when setting the 2022/23 budget, and it is estimated that budgets will only need to increase by 40% for electricity and 85% for gas, propane and heating oil. This will add an estimated £1.75m to the Council's energy budgets.

The Council agreed to increase the rates paid to private residential and nursing homes in July 2022, to reflect the increase in costs faced by the Sector. The Council continues to support the use of the regional fees toolkit and the increase in rates reflect the output of the toolkit, and the increase in the proposed fees will be lower than the increase in general inflation. The setting of care home fees will be subject to a separate report to the Executive.

Other budgets will be increased by 16.4%, where appropriate, but some budget lines will be increased by a lower amount if they have not been fully utilised during 2022/23. The figure of 16.4% corrects the under provision for inflation in 2022/23 and allows for an estimated average rate of inflation of 6.7% in 2023/24.

Over the last 4 years, a general 3% increase has been applied to non-statutory fees and charges budgets, and this figure has again been applied in 2023/24, although services have the discretion to increase individual fees and charges by more or less than this figure, provided that their overall income rises by 3%.

The net increase of the adjustments for non pay inflation and non statutory income is £12.51m.

#### **4.5. Pupil Numbers**

Each year, the effect of the change in pupil numbers in the primary and secondary sectors is taken into account as part of the budget setting process, with the pupil numbers as at September 2022 being used as the basis for the 2023/24 budget. For 2023/24, the number of primary school pupils has continued to fall, with a further drop of 126 pupils, whilst the number of secondary school pupils has increased by 106. The number of pupils at Canolfan Addysg y Bont remains unchanged. The net effect of these changes is an overall increase in the delegated schools budget of £182k.

#### **4.6. Levies**

The Council's budget includes levies raised on the Council by other bodies who have the statutory power to set a levy. The main levy raised is by the North Wales Fire Authority, which sets an overall levy for the 6 North Wales authorities and this is allocated across the 6 authorities on population. At its meeting in January 2023, the North Wales Fire and Rescue Authority resolved to increase its levy on the 6 constituent authorities by 13.4%, and set a budget of £44.71m, which results in an increase to the levy on the Council of £519k. This takes the levy which is funded by the Council to £4.434m.

There is now a requirement for the 6 North Wales Authorities to set up a Corporate Joint Committee (CJC) to be responsible for strategic transport and planning policy and regional economic development. Work is ongoing to determine the responsibilities of the CJC, and the CJC will determine the levy it will charge on each authority at a meeting at the end of January 2023. For the purposes of the initial budget, an estimate of £64k has been included as an estimate of the CJC levy, however, this may change.

#### **4.7. Capital Financing Charges**

Capital Financing Charges are made up of the Minimum Revenue Provision (MRP), annual interest charges on outstanding loans and interest received on investments. The change in the MRP policy in 2018 has resulted in an over provision of MRP in previous years. This over provision does allow some scope to reduce the MRP charge in future years, whilst still ensuring that the provision made is prudent. The Council's Treasury Management Consultants are now advising that a further change in the policy would allow for a significant reduction in the MRP in the short to medium term, but then increases in the charges in later years, compared to the current policy. The new method is one that is allowed in the Welsh Government guidance and still achieves a prudent provision. A separate report will be considered by the Executive on this matter, but the draft budget proposal is based on the assumption that the change in policy is approved by the Council.

Interest received on investments has been at an all-time low during 2020 and 2021, but has begun to rise during 2022. It is anticipated that these higher returns will continue during 2023/24, with an average return of between 3% and 4% expected during the 2023/24 financial year. Based on anticipated levels of cash balances a budget of £1.0m has been set for investment returns, compared to a budget of £3k in 2022/23.

The overall effect of the 2 changes is to reduce the capital financing budget by £3.19m.



#### **4.8. Waste Income**

A charge was first levied for the collection of green garden waste in 2020/21. The budget was conservative when assessing the number of subscribers in the first year. The budget for 2022/23 was amended to reflect the number of users of the service who actually subscribed. However it was anticipated that the number of subscribers may fall during the second year (2022/23) because some people may not have felt that they had made sufficient use of the service during the first year. In reality, the number of subscribers actually increased during 2022/23 and, whilst there is no increase in the fee in 2023/24, the budget can be increased by £250k to reflect the current subscription rate.

The Waste Service has seen a significant increase in the prices paid for recyclable materials, with some of the increase arising from raw material shortages as a result of the war in Ukraine. Although prices may begin to fall during 2023/24, there is sufficient surpluses to allow an increase of £150k in the waste recycling income budget.

#### **4.9. Demand Led Budgets**

A number of budgets are impacted by the demand for the particular services and need to be adjusted to reflect the change in demand. The main adjustments include:-

- An addition of £236k for school transport (this includes the impact of retendered contracts, as well as the change in demand).
- A reduction of £134k in the budget in respect of Out of County pupils, due to the falling number of children that are placed outside of Anglesey and receive their education from another local education authority.
- Although the numbers of people claiming under the Council Tax Reduction Scheme has not increased during 2022/23, it is forecast that unemployment will begin to rise again in 2023/24. In order to provide additional funding, a 2% increase above the increase required to cover the rise in Council Tax has been included in the budget. This adds an additional £126k to the budget.
- School Days vary slightly each year (depending mainly on where Easter falls). Easter in 2024 is in early April and, as such, the school term ends in late March, which reduces the number of school days in the 2023/24 financial year. A reduction of £48k has been made to the budget.

#### **4.10. Contingencies**

As part of the budgeting process, a number of contingency budgets are built into the budget to cover fixed term costs, potential risks that may require funding during the year, or as a general contingency which is utilised during the year as additional budget pressures arise or as unexpected events occur. In the 2022/23 budget, £200k was allocated to cover the cost of the County Council elections and this can be removed in 2023/24. In addition, £300k was included as a contingency budget to meet any one off costs relating to Covid. As the risks relating to Covid have diminished, although not entirely eliminated, this contingency budget can be removed with any Covid related expenditure being funded from the general contingency or general balances.

#### **4.11. Other Minor Adjustments**

In drawing up the standstill budgets, a number of minor budget corrections are made to reflect changes that are required or previous decisions to increase individual budgets. The net effect of these adjustments is to decrease the overall standstill budget by £23k.

#### 4.12. Increasing the 2<sup>nd</sup> Homes Premium

At its meeting on 29 November 2022, the Executive approved the Council Tax base for the 2023/24 financial year. The taxbase included the assumption that the premium for 2<sup>nd</sup> homes would increase from 50% to 75%. This reflects the intention previously stated by the Executive to increase the premium up to 100% by April 2024. This decision will be formally ratified by the Council when it adopts the Council's budget and sets the Council Tax for 2023/24. This creates an estimated additional £805k of funding. No formal decision has been taken as to how to use the additional funding but, again, the Executive has expressed its intention to use the additional funding to address housing issues on Anglesey.

### 5. THE FUNDING POSITION

5.1. After taking into account the provisional settlement from Welsh Government (as set out in paragraph 3) and the main budget changes (as set out in paragraph 4), the funding position prior to any increase in Council Tax is set out in Table 2 below:-

<b>Table 2</b>		
<b>Budget Funding Gap 2023/24</b>		
	<b>£'m</b>	<b>£'m</b>
<b>2022/23 Final Budget</b>		<b>158.367</b>
<b>Main Budget Adjustments (as set out in Paragraph 4)</b>		
Pay Inflation and Other Staffing Costs	5.997	
Pension Adjustments arising from the Pension revaluation	(0.619)	
Non Pay Inflation	12.512	
Pupil Numbers	0.182	
Levies	0.518	
Capital Financing Charges	(3.190)	
Additional Waste Income above inflation	(0.400)	
Demand Led Services	0.181	
Contingencies and Other Minor Amendments	(0.523)	
		14.658
Use of Additional Funding from 2 <sup>nd</sup> Home Premium		0.805
<b>Standstill Net Revenue Budget 2023/24</b>		<b>173.830</b>
<b>Funded By</b>		
Revenue Support Grant (RSG)	(100.732)	
Share of Non Domestic Rates Pool	(22.823)	
<b>Total Aggregate External Finance</b>		<b>(123.555)</b>
2022/23 Council Tax Budget (adjusted for the change in the taxbase and increase in second home premium)		(44.879)
<b>Total Funding Prior to Increase in Council Tax</b>		<b>(168.434)</b>
<b>Funding (Surplus) / Deficit (before any change in Council Tax)</b>		<b>5.396</b>

- 5.2. In order to fund the funding deficit of £5.396m, it would be necessary to increase Council Tax by 12.0%. This would take the Band D charge to £1,531.89, which is an annual increase of £164.43 and a weekly increase of £3.15. In order to reduce the increase in Council Tax, it would be necessary to utilise the Council's own reserves or to implement revenue budget savings. Each £1m reserves used, or savings implemented, reduces the increase in Council Tax by 2.23%. Therefore, by using £2.98m of reserves or implementing £2.98m of savings, or a combination of both, it is possible to reduce the required rise in Council Tax down to 5.00%. This would take the increase in Council Tax to £68.40, or £1.32 per week.

## 6. BUDGET RISKS

- 6.1. In setting the budget, there are a number of financial risks which need to be assessed which may result in a financial cost to the Council. Some of these risks have been allowed for in the budget proposal, but others have not been allowed for in the budget and would be covered by the Council's general balances and reserves, should the risk materialise into a financial cost in 2023/24.
- 6.2. The Council's current level of unallocated general balances is forecasted to stand at £10.2m by the end of the financial year, with an additional £4m of earmarked reserves which could be returned to the Council's general balances. As a rule of thumb, the Executive has set the minimum general balance as 5% of the net revenue budget. Based on the standstill net revenue budget for 2023/24 of approximately £174m, the minimum required sum would be £8.7m. This leaves a potential £5.5m available to help fund the revenue budget over the next 2 to 3 years, but it should be noted that reducing the level of general balances and earmarked reserves does weaken the Council's financial position, and could lead to future financial difficulties should it be necessary to fund any significant unexpected expenditure e.g. funding future revenue overspending.
- 6.3. The current position of the 2022/23 revenue budget estimates that there will be an underspend and, although it is difficult to accurately estimate the final level of underspending, it is expected that, at worst, any overspending in 2022/23 will be minimal and would not impact significantly on the level of general balances at the end of this financial year.
- 6.4. There are a number of financial risks which are not covered in the budget, or potentially are only partly addressed in the budget, these include:-
- **Pay Award** – as noted in paragraph 4.2 above, the budget has been inflated to reflect the estimated pay awards for 2023/24, but there is still significant uncertainty over the pay awards. If inflation remains high, then there will be pressure from the Unions to agree a pay award which will be higher than the 3.5% allowed for. Each 1% above this figure adds approximately £1m to the Council's pay bill.
  - **National Living Wage** – the UK Government announced that the National Living Wage (previously known as the minimum wage) would increase by 9.7% in April 2023, to £10.42 per hour, and forecasts by the Low Pay Commission suggest that it could rise to £11.35 per hour by April 2024. The National Living Wage puts pressure on the Council's budget in two ways i.e. what it pays its own staff and what its main contractors pays its staff.

The Council's lowest point on its pay scale for 2022/23 is £20,812, or £10.79 per hour, which is only £0.37 above the National Living Wage level. Of course, a pay award will be paid in April 2023 which will increase this figure and provide further headroom. However, it should be noted that the national payscale includes 2 points which are lower than the minimum paid by the Council, and the lowest point is currently £10.50 per hour, only £0.08 above the National Living Wage level. If the National Living Wage was set at £11.35 in April 2024, then this would require the lowest point on the scale to rise by 8% over the two year period of 2023/24 and 2024/25. This level of increase would have a significant impact on the Council's pay bill if it was to be replicated across all the payscales.

A large number of staff employed by the Council's main contractors and service providers pay their staff on, or around, the National Living Wage level. This is particularly true in the care sector (residential and nursing home care, homecare etc). Increases to the National Living wage are reflected in the increases in the fees the Council has to pay to their contractors and service providers. Although an increasing of funding has been allowed for, there is a risk that it will not be sufficient to meet the demands from providers, who may also be facing pressure as a result of general inflation, particularly food, energy and fuel costs.

- **General Inflation** – Over the past 12 months, the level of general price inflation has increased significantly from the level which it has stood for a number of years and although it is widely forecast that it may have now peaked at around 10%, there is still uncertainty about how fast it will fall during 2023/24. In setting the budget, an assumption has been made that inflation will fall gradually, from 10% at the beginning of the financial year to 4% by March 2024, giving an average level of inflation of 6.7%, which is the sum that has been allowed for in the 2023/24 budget. However, the more pessimistic forecast is that inflation remains high, peaking at around 12% by the summer of 2023 before falling back to around 7.5% by March 2024. This would give an average inflation rate of 9.5% for 2023/24. It should be also noted that the Council may face higher inflation in certain costs, such as energy, food and fuel costs. If inflation remains high into the Autumn of 2023, it will also have a knock on effect on the 2024/25 budget, as the inflation applied to a number of the Council's main contracts is based on the inflation indices in September and October of each year.
- **Energy Costs** – The Council purchases its gas and electricity through a framework agreement, with the prices being updated each October. The increases in October 2022 are noted in paragraph 4.4. The budget allows for a further increase of 20% in October 2023, but again there is a significant level of uncertainty surrounding energy prices. Resolution of the war in Ukraine would considerably ease the pressure on energy prices but conversely an escalation in the war could significantly increase prices again.
- **Service Demand** – The budget allows for the provision of services at the current level of demand in certain services where the demand can fluctuate (Children's Services, Adult Social Care, Homelessness, Council Tax Reduction Scheme). Any significant increase in service demand will create additional financial costs for the Council which would not be covered by the existing budgets.
- **Grant Income** – In addition to the funding received through the Aggregate External Finance, the Council receives significant levels of additional funding in the form of specific grants from the Welsh Government and others. When the level of specific grant funding falls, it is not always possible to react quickly to the change as the service funded by the grant is integrated into the service funded from the Council's core budget. There is, therefore, a delay between the reduction in funding and the Council's ability to reduce the associated cost through the reconfiguration of the service.
- **Income Targets from Fees and Charges** – As the cost of living emergency continues to impact on the disposable income of families, there is a risk that the use of some of the Council's services may reduce e.g. leisure services, car parking, planning and building regulations applications. As a result, there is a risk that the targets for fees and charges budgets may not be achieved.

## 7. BRIDGING THE FUNDING GAP

- 7.1. Included in the 2022/23 revenue budget was an investment of £700k in educational services. Due to various reasons, the service has not yet implemented the plans relating to this funding. It is, therefore, proposed to postpone this additional investment until such time that the financial situation improves and the investment is affordable.

- 7.2. In drawing up the standstill budget, a number of assumptions are made in respect of pay and price inflation. In respect of the school's delegated budget, the standstill budget allows for an increase in cash terms of £4.9m (11%), which takes the delegated school's budget to £47.07m (excluding the post 16 budget). It is proposed to cap the inflationary increase to 10.0%, thereby reducing the standstill budget by £471k.
- 7.3. The income budgets have generally been increased by 3%, but there is scope within the Highways Service to increase the fee in respect of road closures by a higher sum. An increase of 15% is proposed, which will generate an additional £169k.
- 7.4. The Adult Social Care Service has been extending the use of direct payments, where certain category of clients arrange their own care, which allows them more flexibility in their care package and can be achieved at a lower cost. Extending the scheme has identified a saving of £35k for 2023/24.
- 7.5. The Adult Social Care Service is currently in the process of reviewing the provision of day care services. This review had identified an opportunity to reduce costs by £35k in a full year. The change would be implemented in October 2023 and would result in a saving of £17.5k in 2023/24, and an additional saving of £17.5k in 2024/25.
- 7.6. Based on the above changes to the standstill budget, the funding gap would fall to £1.758m.
- 7.7. It is estimated that the Council will hold £10.2m in general balances at the end of the 2022/23 financial year. The Council's general policy is to hold 5% of the net revenue budget as the minimum level of general balances. Based on the budget for 2023/24, the minimum balance would be £8.6m. Using £1.758m of the general balances to provide additional funding would close the funding gap and still maintain a level of general balances that is only slightly below the Council's policy.
- 7.8. It should also be noted that the Council held £23.2m as earmarked reserves at the beginning of the financial year. It is estimated that £8.8m will be used during 2022/23, leaving a balance of £14.37m. A review of the remaining reserves has identified that £4.4m could be returned to the general balances if required and would take place at the end of the financial year when the position at the end of the financial year is known.
- 7.9. Based on the above the initial revenue budget proposal for 2023/24 is set out in Table 3 below:-

<b>Table 3</b>		
<b>Initial Budget Proposal 2023/24</b>		
	<b>£'m</b>	<b>£'m</b>
<b>Standstill Net Revenue Budget 2023/24 (as per Table 2)</b>		<b>173.830</b>
<b>Additional Budget Adjustments</b>		
Postpone investment in Education services	(0.700)	
Cap the inflation increase to the delegated schools' budget	(0.471)	
Additional Highways Income	(0.169)	
Reduction in Adult Social Care Budgets	(0.053)	
		(1.392)
<b>Initial Proposed Net Revenue Budget 2023/24</b>		<b>172.438</b>
<b>Funded By</b>		
Revenue Support Grant (RSG)	(100.732)	
Share of Non Domestic Rates Pool	(22.823)	
<b>Total Aggregate External Finance</b>		(123.555)
Council Tax (including premium and 5% rise)		(47.125)
Council Reserves		(1.758)
<b>Total Funding</b>		<b>172.438</b>

## **8. RESULTS OF THE CONSULTATION EXERCISE**

- 8.1.** As part of the Council's consultation exercise on the Corporate Plan, which took place between September 2022 and November 2022, a number of questions were asked about which services residents wanted to see more or less investment in and how the Council should fund the increasing costs of the revenue budget.
- 8.2.** The consultation confirmed that the majority of respondents wished to see continued investment in social care, education, economic development and dealing with homelessness, but less investment in tourism, planning and libraries, museums and archives. Although the views of the residents are important, the Council has statutory responsibilities in a number of areas and it is not always possible to reduce investment.
- 8.3.** In response to how the Council should fund its budget moving forward, 52.6% supported a mixture of increasing Council Tax and reducing some services, whilst 28.5% wanted to see reductions in Council Tax and 18.9% wanted the existing level of services maintained, whilst increasing Council Tax.

## **9. THE BUDGET POSITION FOR 2024/25**

- 9.1.** There is still a significant level of uncertainty surrounding the UK economy and whether it will begin to recover in 2024/25, and the impact that recovery will have on inflation, interest rates, economic growth and the funding levels for the Welsh Government and local government in Wales. The current high level of inflation makes predicting future costs more difficult and there are wide variances between different scenarios. High inflation also makes it extremely difficult to forecast pay awards as far forward as 2024/25.
- 9.2.** The current cost of living crisis is also adding to the demand for Council services, mainly in homelessness and debt support and advice. Money problems within families is also leading to mental health issues and family breakdown, which results in increased demand for adult and children's social care. Any increase in unemployment will also add to the pressures on the Council Tax Reduction Scheme budget and in uncollectable debt. The current difficulties in the NHS adding to the pressure on adult social care services. If the war in Ukraine continues, this will maintain the pressure on energy costs and the risk from a re-emergence of Covid still remains.
- 9.3.** The Welsh Government's draft budget and provisional local government settlement does not directly state what the level of funding for local government in Wales will be, but the draft figures for 2024/25 published in the budget, suggests an increase of 3% in the level of funding in 2024/25. If this was to materialize, then the Council's funding would increase by £3.7m.
- 9.4.** Although the Executive has made no decision on the future rise in Council Tax, maintaining the current policy of a 5% rise in Council Tax would bring in an additional £2.35m.
- 9.5.** By using £1.76m of reserves in balancing the 2023/24 budget, the 2024/25 budget would require that this sum is funded from the additional core funding, continues to be funded from reserves or by a permanent reduction in the budget.
- 9.6.** If it is assumed that the £1.76m of funding from reserves is replaced by core funding, this will increase the overall core funding in 2024/25 by £4.29m (£3.7m + £2.35m - £1.76m), which is equivalent to an increase of 2.6% in the net revenue budget.
- 9.7.** Current inflation forecasts suggest that the average inflation in 2024/25 will be between 1.2% and 4.8% and, as a result, it is estimated that the additional funding in 2024/25 will only cover the inflationary increases and no funding will be available to meet increased demand for services or to invest in services. If the economic recovery is weak and inflation remains high, the additional funding will be insufficient to meet the inflationary pressures and reductions in service budgets will be required. However, it is very uncertain as to the extent of those budget reductions.

- 9.8.** It should also be noted that if the actual increases in pay and prices in 2023/24 were above the sum allowed for in the 2023/24 budget, this underfunding would have to be corrected in the 2024/25 budget, which would provide an additional inflationary pressure to the budget.
- 9.9.** It is envisaged that balancing the budget in 2024/25 will be extremely challenging. Work has already commenced to identify potential budget savings for 2024/25, and these savings proposals will be considered further during 2023/24.

## **10. CONCLUSION**

- 10.1.** Although the local government financial settlement is better than previously forecast and although it does not provide funding to meet the full cost of inflationary pressures and service demands, the budget shortfall is manageable for 2023/24.
- 10.2.** Prudent financial management in previous years has significantly strengthened the Council's financial position and has increased the Council's level of general balances and earmarked reserves. This improved financial position has allowed the Council to put forward a budget proposal which allows for a lower than inflation increase in Council tax, allows for the use of the Council's reserves and proposes modest reductions in budgets.
- 10.3.** There is a level of risk surrounding the budget, in particular whether sufficient provision has been made for pay increases, energy inflation and the increasing demand for services. The risk is mitigated through the fact that the Council could redirect up to £4m of earmarked reserves to fund increased costs in 2023/24.
- 10.4.** Although the proposed budget requires a modest and achievable level of budget reductions, it is anticipated that there will be a greater need for budget and service reductions in future years to enable the Council to continue to set a balanced budget and to keep Council Tax rises to a reasonable and affordable level.
- 10.5.** The budget position from 2024/25 onwards looks more uncertain and, if the economy fails to recover and funding increases are limited, then there is a significant risk that services will have to be reduced more widely in order to set a balanced budget in 2024/25. These pressures may also continue into 2025/26.

## **11. MATTERS FOR DECISION**

- 11.1.** The final budget will not be approved by the full Council until 9 March 2023, however, at this point, the Executive is recommended to approve the following:-
- The initial proposed budget for 2023/24 of £172.438m;
  - A proposed increase in Council Tax of 5%, taking the Band D charge to £1,435.86;
  - To formally propose an increase in the premium on second homes from 50% to 75%;
  - That £1.758m is released from the Council's general balances in order to balance the 2023/24 revenue budget.

<b>PROPOSED BUDGET 2023/24 BY SERVICE</b>				
<b>Budget</b>	<b>2022/23 Budget</b>	<b>2023/24 Proposed Budget</b>	<b>Movement</b>	<b>% Change</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>%</b>
<b>Lifelong Learning</b>				
Schools	44.919	49.270	+4.351	+9.68
Central Education	11.215	12.441	+1.226	+10.94
Culture	1.270	1.350	+0.080	+6.31
<b>Total Lifelong Learning</b>	<b>57.404</b>	<b>63.061</b>	<b>+5.657</b>	<b>+9.85</b>
<b>Highways, Waste &amp; Property</b>				
Highways	6.892	7.891	+0.999	+14.50
Property	1.508	1.548	+0.040	+2.63
Waste	9.164	10.317	+1.153	+12.58
<b>Total Highways, Waste &amp; Property</b>	<b>17.564</b>	<b>19.756</b>	<b>+2.192</b>	<b>+12.48</b>
<b>Regulation &amp; Economic Development</b>				
Economic Development & Maritime	2.214	3.006	+0.792	+35.78
Planning & Public Protection	2.406	2.670	+0.264	+10.99
<b>Total Reg &amp; Economic Development</b>	<b>4.620</b>	<b>5.676</b>	<b>+1.056</b>	<b>+22.87</b>
<b>Adult Services</b>	<b>29.964</b>	<b>34.971</b>	<b>+5.007</b>	<b>+16.71</b>
<b>Children Services</b>	<b>11.715</b>	<b>12.967</b>	<b>+1.252</b>	<b>+10.69</b>
<b>Corporate Transformation</b>				
Human Resources	1.475	1.587	+0.112	+7.64
ICT	3.704	4.172	+0.468	+12.64
Transformation	1.029	1.190	+0.161	+15.61
<b>Total Corporate Transformation</b>	<b>6.208</b>	<b>6.949</b>	<b>+0.741</b>	<b>+11.95</b>
<b>Housing</b>	<b>1.217</b>	<b>1.590</b>	<b>+0.373</b>	<b>+30.59</b>
<b>Resources</b>	<b>3.429</b>	<b>3.732</b>	<b>+0.303</b>	<b>+8.85</b>
<b>Council Business</b>	<b>1.822</b>	<b>1.959</b>	<b>+0.137</b>	<b>+7.49</b>
<b>Total Service Budgets</b>	<b>133.943</b>	<b>150.661</b>	<b>16.718</b>	<b>+12.48</b>
<b>Corporate Budgets</b>				
Corporate Management	0.735	0.760	+0.025	+3.32
Levies	3.957	4.505	+0.548	+13.83
Corporate & Democratic	3.030	3.244	+0.214	+7.07
Capital Financing Costs	7.209	4.329	-2.880	-39.95
Benefits Granted	0.109	0.109	0.000	0.00
HRA Recharges	(0.800)	(0.800)	0.000	0.00
Council Tax Reduction Scheme	6.304	6.752	+0.448	+7.10
Contingencies	3.110	1.271	-1.839	-59.13
Discretionary Rate Relief	0.073	0.105	+0.032	+43.84
Housing Loans and Grants	0.697	1.502	+0.805	+115.51
<b>Total Corporate Budgets</b>	<b>24.424</b>	<b>21.777</b>	<b>-2.647</b>	<b>-10.84</b>
<b>TOTAL BUDGET</b>	<b>158.367</b>	<b>172.438</b>	<b>14.071</b>	<b>+8.89</b>