

ISLE OF ANGLESEY COUNTY COUNCIL Scrutiny Report Template

Committee:	Corporate Scrutiny Committee
Date:	28 th February, 2023
Subject:	2023/24 Budget Setting (Revenue)
Purpose of Report:	Scrutiny consideration of final draft budget proposals for 2023/24
Scrutiny Chair:	Cllr Robert Llewelyn Jones
Portfolio Holder(s):	Cllr Robin Williams
Head of Service:	Marc Jones, Director of Resources / Section 151 Officer
Report Author:	Anwen Davies, Scrutiny Manager
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Local Members:	Applicable to all Elected Members

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1 - Recommendation/s

Agree a formal response to the Executive on the Council's final draft proposed revenue budget for 2023/24 (using the key scrutiny questions in paragraph 4 below).

2 – Link to Council Plan / Other Corporate Priorities

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

3 – Guiding Principles for Scrutiny Members

To assist Members when scrutinising the topic:-

- 3.1** Impact the matter has on individuals and communities [focus on customer/citizen]
- 3.2** A look at the efficiency & effectiveness of any proposed change – both financially and in terms of quality [focus on value]
- 3.3** A look at any risks [focus on risk]
- 3.4** Scrutiny taking a performance monitoring or quality assurance role [focus on performance & quality]
- 3.5** Looking at plans and proposals from a perspective of:
- Long term
 - Prevention
 - Integration
 - Collaboration
 - Involvement
- [focus on wellbeing]
- 3.6** The potential impacts the decision would have on:
- protected groups under the Equality Act 2010
 - those experiencing socio-economic disadvantage in their lives (when making strategic decisions)

- opportunities for people to use the Welsh language and treating the Welsh language no less favourably than the English language

[focus on equality and the Welsh language]

4 - Key Scrutiny Questions

The following key questions are proposed to underpin the Committee's consideration of the 2023/24 budget proposals:

- i. Using the information available to the Committee about Council services and draft funding settlement for 2023/24, do the proposals respond adequately to Service pressures and challenges?
- ii. To what degree does the Committee support Executive proposals to use funding released as a result of changes in levies and contributions to joint services, after the initial budget proposal was set, in setting the budget for 2023/24:
 - New schools' management information system – interim handover costs
 - Elections Act 2022 – additional staffing capacity
 - Member Support – additional administrative capacity
 - Economic Development – additional capacity to maximise grant funding opportunities
 - School Meals contract – fund increase in cost per meal (secondary sector) in order to avoid passing on the increase onto pupils
- iii. Does the Committee consider that any of the budget proposals will have a detrimental effect on the citizens of Anglesey or any protected groups? Does the Committee consider that any further action should be taken to mitigate the impact of the proposals on Anglesey citizens or protected groups?
- iv. Does the Committee support an increase in the Council Tax of 5% in order to realise the proposals of the Executive for 2023/24? If it does not, should the increase be more or less than that proposed by the Executive?

5 – Background / Context

1. CONTEXT

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

1.2 Members will be aware that finance is critical to the services the Council delivers and that there are far reaching implications to financial issues facing us as a local authority – both in terms of the services being received by our citizens and also the level of Council Tax or fees and charges being levied¹. This will inevitably require us to ask challenging questions about which services to offer to the future and which services to invest in and also the degree to which current methods of service delivery remain appropriate. Another consideration is also how best to manage expectations of local people in making the necessary changes. In the current economic climate, Members therefore need to be assured that the Council is making the most effective use of resources, in particular finances.

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

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

2. SETTING THE COUNCIL'S BUDGET FOR 2023/24

2.1 Attached is the report of the Director of Function (Resources) / Section 151 Officer on the final draft proposals for the 2023/24 budget (**APPENDIX 1**) which will be submitted to a meeting of the Executive on 2nd March, 2023. The paper provides a position statement on the following issues:

- The Executive's budget proposals
- Local Government settlement (Welsh Government)
- Initial budget position for 2023/24
- Budget pressures which must be allowed for in the 2023/24 budget
- The financial risks which the Council faces during 2023/24
- The level of Council Tax increase required to set a balanced budget
- Impact on the Medium Term Financial Plan

Details of the Final Settlement for the 2023/24 budget are expected from Welsh Government on 28th February, 2023.

3. FINANCIAL SCRUTINY – SETTING THE 2023/24 BUDGET

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

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

4. FINANCE SCRUTINY PANEL

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

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

4.2 The Panel gave further consideration to the budget proposals at its last meeting (15th February, 2023). A summary of the Panel's deliberations will be presented verbally at the meeting by Cllr Dafydd Roberts, chair of the Panel.

5. KEY SCRUTINY ISSUES

5.1 The 2023/24 budget setting process provides an opportunity for Elected Members to consider and challenge the implications of the draft budget and any additional investment proposals. Input has also been received via the Finance Scrutiny Panel who have given detailed consideration to the budget proposals. At this stage in the process, the Corporate Scrutiny Committee is now requested to

agree a formal response to the Executive² on the Council's proposals for the 2023/24 revenue budget (using the key scrutiny questions in paragraph 4 above).

5.2 In light of the 2023/24 budget setting process to date, it is therefore proposed that the Committee should:

- i. Consider the Executive's final draft budget proposals and provide comments which the Executive can consider before agreeing its final draft budget proposals on 2nd March, 2023.
- ii. Examine in detail the likely impacts on citizens of the initial proposals
- iii. Come to a view about the level of the Council Tax for 2023/24.

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

6.1 Potential impacts on protected groups under the Equality Act 2010

Identify the need for impact assessments later in the 2023/24 budget setting process.

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

Identify the need for impact assessments later in the 2023/24 budget setting process.

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

Identify the need for impact assessments later in the 2023/24 budget setting process.

7 – Financial Implications

This report discusses the process for setting the Council's 2023/24 budget, which includes consideration of the final draft proposals for the revenue budgets.

8 – Appendices:

APPENDIX 1: report of the Director of Function (Resources) on the proposed revenue budgets for 2023/24.

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

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² Meeting of the Executive to be convened on 2nd March, 2023

ISLE OF ANGLESEY COUNTY COUNCIL

REPORT TO:	EXECUTIVE COMMITTEE
DATE:	2 MARCH 2023
SUBJECT:	MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2023/24
PORTFOLIO HOLDER(S):	COUNCILLOR R WILLIAMS – PORTFOLIO HOLDER – FINANCE, CORPORATE BUSINESS & CUSTOMER EXPERIENCE
HEAD OF SERVICE:	MARC JONES – DIRECTOR OF FUNCTION (RESOURCES / SECTION 151 OFFICER
REPORT AUTHOR:	MARC JONES
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LOCAL MEMBERS:	n/a

A - Recommendation/s and reason/s

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

1.1 Purpose

The Executive is required to agree a number of key matters in respect of the 2023/24 budget. This will then allow the final recommendations to be presented to the full Council at its meeting on 9 March 2023. The matters requiring agreement are:-

- The Council's Revenue Budget and resulting Council Tax for 2023/24;
- The Council's updated Medium Term Financial Strategy;
- The use of any one-off funds to support the budget.

1.2 Summary

This paper shows the detailed revenue budget proposals requiring final review and agreement for 2023/24, and the resulting impact on the Isle of Anglesey County Council's revenue budget. These are matters for the Council to agree, and the Executive is asked to make final recommendations to the Council.

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

2. 2023/24 REVENUE BUDGET AND COUNCIL TAX RECOMMENDATIONS

The Executive is requested :-

- To agree the final details of the Council's proposed budget, as shown in Section 4 of Appendix 1 and Appendix 2;
- To note the Section 151 Officer's recommendation that the Council should maintain a minimum of £8.6m general balances;
- To note the comments made by the Section 151 Officer on the robustness of the estimates made, as set out in Section 5 of Appendix 1;

- To recommend a net budget for the County Council of £172.548m and resulting increase in the level of Council Tax of 5.00% (£68.40 – Band D) to the full Council, noting that a formal resolution, including the North Wales Police and Community Council precepts, will be presented to the Council on the 9 March 2023;
- That any differences between the provisional settlement and the final settlement will be adjusted for by using the general contingency which is included in the 2023/24 budget, or by making a contribution to / from the Council's general reserves in order to set a balanced budget;
- To authorise the Section 151 Officer to make such changes as may be necessary before the submission of the final proposals to the Council;
- To agree that any unforeseen pressures on demand led budgets during the financial year will be able to draw upon funding from the general contingencies budget;
- To request the Council to authorise the Executive to release up to £250k from general balances if the general contingencies budget is fully committed during the year;
- To delegate to the Section 151 Officer the power to release funding from the general contingency up to £50k for any single item. Any item in excess of £50k not to be approved without the prior consent of the Executive;
- To confirm that the level of Council Tax Premium for second homes increases to 75% and for empty homes remains at 100%.

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

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

C - Why is this a decision for the Executive?

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

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

Yes. The final decision on the 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?

N/A

Dd – Assessing the potential impact (if relevant):

1	How does this decision impact on our long term needs as an Island?	In drawing up the budget proposal, the Executive has considered its statutory duties and the objectives set out in its Corporate Plan.
2	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.
3	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.
4	Have Anglesey citizens played a part in drafting this way forward, including those directly affected by the decision? Please explain how.	The budget proposals have been subject to a consultation process, the details of which are included in the report. The Executive has considered the results of the consultation before agreeing the final budget proposal.

5	Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.	Any proposals included in the final budget for 2023/24 will take into account the impact on any protected groups.
6	If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.	The budget will result in an increase in the Council Tax payable by the taxpayers of Anglesey. Those experiencing socio-economic disadvantage are more likely to qualify for help through the Council Tax Reduction Scheme, which should result in no financial impact / limited financial impact to those who are experiencing socio-economic disadvantage.
7	Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.	No impact identified.

DD - Who did you consult?		What did they say?
1	Chief Executive / Leadership Team (LT) (mandatory)	The Chief Executive and Leadership Team have been part of the budget setting process throughout and are in agreement with the report and support the final budget proposal.
2	Finance / Section 151 (mandatory)	N/A – this is the Section 151 Officer's report.
3	Legal / Monitoring Officer (mandatory)	The Monitoring Officer is part of the LT and, as such, the Officer's comments have been taken into account.
4	Human Resources (HR)	-
5	Property	-
6	Information Communication Technology (ICT)	-
7	Scrutiny	Final budget proposals were considered by the Scrutiny Committee at its meeting on 28 February 2023. A verbal update on the outcome of the meeting will be provided to the Executive.
8	Local Members	The Council's budget is applicable to all Members and consultation has taken place throughout the budget setting process.
9	Any external bodies / other/s	See Section 2 of the report.

F - Appendices:
<ul style="list-style-type: none"> • Appendix 1 – Detailed report on the Budget Proposals • Appendix 2 – Summary of the Proposed Revenue Budget 2022/23 by Service
FF - Background papers (please contact the author of the Report for any further information):
<ul style="list-style-type: none"> • Initial Budget Proposals for 2023/24 – Executive Committee – 24 January 2023 • Initial Budget Proposals for 2022/23 – Corporate Scrutiny Committee – 19 January 2023 • Medium Term Financial Plan for 2023/24 to 2024/25 – Executive Committee – 27 September 2022

1. INTRODUCTION AND BACKGROUND

- 1.1. The following report sets out the 2023/24 revenue budget proposals, and is one of a set of reports which provides an overall picture of the financial position of the Council and ensures that the Council funding is allocated to meet its priorities. The other reports in the set relate to the Council's Capital Programme and Capital Strategy, the Council's Treasury Management Strategy and Fees and Charges.
- 1.2. The revenue budget and the continued need to identify revenue savings has been driven by the Medium Term Financial Plan, as approved by the Executive Committee in September 2022, and can be summarised as follows:-

Table 1
Medium Term Financial Plan 2023/24 to 2024/25

	2023/24 £'m	2024/25 £'m
Net Revenue Budget B/F	158.367	164.682
Budget Pressures and Inflation	18.147	8.003
Revised Standstill Budget	176.514	172.685
Aggregate External Finance (AEF) (assuming 3.6% rise in 2023/24 and 2.4% rise in 2024/25)	118.675	121.523
Council Tax (assuming 5% rise in 2023/24 & 2024/25)	46.007	48.307
Total Funding	164.682	169.830
Additional Funding Requirement / Savings Required	11.832	2.855
Main Assumptions		
Pay Awards – Non Teaching	7.8%	3.0%
Pay Awards - Teaching	5.2%	3.2%
General Inflation	16.4%	1.8%
Note – The figures for 2023/24 allowed for a correction of the base budget due to an under provision for pay and price inflation in 2022/23 budget.		

- 1.3. Given that the rate of inflation was significantly higher than normal, energy prices had not been received for the forthcoming year and that pay increases for 2022/23 had not been settled when the MTFP was drawn up, there was a significant risk that the funding gap could have been even higher than the figures shown in the MTFP.
- 1.4. In drawing up the initial budget proposal, the 2022/23 pay award had been settled, inflation had begun to show signs that it had peaked and the new energy prices for the year October 2022 to September 2023 had been received. This allowed for more certainty around the base budget.
- 1.5. The draft settlement figures from the Welsh Government were also better than forecast, with the Council receiving an increase of 7.9% compared to the 3.6% that was included in the MTFP.
- 1.6. However, despite these changes and that the funding gap was lower than forecast in the MTFP, it is still a challenging financial position for both 2023/24 and 2024/25, with costs still expected to rise due to inflation and increased demand, but little prospect that the funding from Welsh Government will be sufficient to cover all of these increases in costs.

2. THE INITIAL BUDGET PROPOSAL

- 2.1.** At its meeting on 24 January 2023, the Executive discussed its original budget proposal and the provisional budget settlement which the Welsh Government had published on 14 December 2022.
- 2.2.** The provisional settlement was better than anticipated, and would provide the Council with £123.555m, which is an increase in cash terms of £9.004m (7.86%) but, after allowing for grants transferring into the settlement and the effect of the change in the Council's taxbase, the adjusted increase was £9.065m (7.92%).
- 2.3.** The Executive proposed a budget for 2023/24 of £172.438m and, given the provisional AEF of £123.555m, this would require an increase of 5.00% in Council Tax and the use of £1.758m of the Council's general balances to balance the budget.
- 2.4.** In setting the proposed budget, the Executive recognised the need to protect front line services and increasing budgets to meet an increased demand in Adult and Children's services and homelessness prevention.
- 2.5.** The budget proposal reversed £700k of investment in Education, which had been included in the 2022/23 budget, and capped the inflation increase in the Schools' delegated budget by 1% (£471k). These changes, along with an increase of £169k in the Highways income budget was sufficient to result in a budget that matched the net expenditure to the available funding.
- 2.6.** Although not intended as a measure of what the Council's net revenue budget should be, the Standard Spending Assessment (SSA) does give some indication as to whether the Council's budget is at a reasonable level for the Council. The SSA for 2023/24 is £169.406m and the proposed budget is, therefore, 101.8% of the SSA.

3. SCRUTINY COMMITTEE

- 3.1.** Due to the delays in receiving the provisional and final settlement, the budget timetable for 2023/24 has had to be condensed in order to ensure that the Council is in a position to set the Council Tax within the timeframe set out in the Local Government Finance Act 1992 (Section 30(6)). The Finance Scrutiny Panel also examined in detail the service investment proposals at its meeting on 12 January 2023, and the Panel's comments were reported to the Corporate Scrutiny Committee meeting on 19 January 2023.
- 3.2.** The 2023/24 initial budget proposal was considered by the Finance Scrutiny Committee at its meeting on 19 January 2023. The Committee resolved to support the Executive's initial budget proposal.
- 3.3.** The final budget proposal was given further consideration by the Corporate Scrutiny Committee at its meeting of 28 February 2023, and a verbal report on the Committee's deliberations will be presented to the Executive at the Committee meeting.

4. FINAL BUDGET PROPOSAL

- 4.1.** In drawing up the initial budget proposal, the Council was awaiting the final budget decision in respect of levying bodies and other organisations which receive contribution from the Council. The impact on the Council's budget of the adjustments resulting from a finalisation of the decisions are shown in Table 2 below.
- 4.2.** In addition, one change has been made to the final settlement from Welsh Government, compared to the draft settlement. A grant to assist the North Wales Fire Authority to meet increased pension costs has been transferred into the settlement. The Fire Authority has increased their levy by a similar amount, resulting in a zero net effect on the Council's budget.

Table 2
Revised Council Net Revenue Budget

	£m	£m
Initial Proposed Net Revenue Budget 2023/24		172.438
Adjustments		
Reduction in proposed Fire Authority Levy increase from 13.4% to 9.9%	(0.131)	
Increase in Fire Authority Levy to reflect the grant transferred into the final settlement	0.108	
Increase in the CJC levy to reflect the final decision of the CJC	0.012	
Increase in the Tywyn Trewan Levy	0.010	
Increase in the contribution to the NWEAB to reflect the final budget	0.011	
Decrease in the contribution to GwE to reflect the final budget	(0.061)	
Decrease in the contribution to the North Wales Emergency Planning Team to reflect the final budget	(0.021)	
Other Minor Adjustments	(0.017)	(0.089)
Revised Net Revenue Budget 2023/24		172.349
Funded by		
Aggregate External Finance	123.663	
Council Tax (including 2 nd Home and Empty Home Premium)	47.124	
Reserves	1.759	
Revised Funding 2023/24		172.546
Excess of Funding over Net Revenue Budget		0.197

- 4.3.** The Executive considered three options in order to match the revised funding with the net revenue budget:-
- Reduce the use of reserves by £197k to £1.562m;
 - Reduce the rise in Council Tax to 4.56%. This would change the Band D Council Tax charge to £1,429.83, which is £6.03 lower than the initial budget proposal;
 - Increase the net revenue budget by £190k, by providing additional resources to meet urgent priorities identified since the initial budget proposal was agreed.
- 4.4.** Prior to finalising the budget, a review was undertaken to identify any priority areas which required additional funding to that proposed in the initial budget proposal. Following that review, the Executive has agreed to include the following additional budgets into the final budget proposal.
- The Education Service has procured a new schools management information system, in a joint procurement process with the 5 other North Wales authorities. The annual licence fee for the new system is around £30k less than the cost of the current system. However, for 2023/24 it will be necessary to run both systems in parallel and, as a result, it is necessary to add an additional £44k to the software budget.
 - The new Elections Act 2022 places a number of additional duties on the Council which will require additional staffing capacity to undertake. As a result, one additional post is to be added to the staffing structure of the Elections Team at an additional cost of £34k, which is net of grant funding that is received from the UK Government.

- There has been concern for some time that the level of administrative support for Elected Members is insufficient to enable them to undertake all their duties and responsibilities effectively. The Members Support Team is a very small team and difficulties arise when staff are absent due to leave or sickness. One additional post is proposed to provide a greater level of support and to improve the resilience of the Team. The additional cost of the post is £42k.
- Changes to the grant funding regime following the UK's departure from the European Union has resulted in an increased input required by the Council in schemes such as the Shared Prosperity Fund and the Levelling Up Fund. The changes have also created an opportunity to attract more grant funding to Anglesey and this, along with other economic development opportunities e.g. the development of a Freeport, will require additional economic development capacity to ensure that the maximum benefit is realised. It is therefore proposed to increase the economic development team at a cost of £69k.
- The Council's school meals catering contractor had hoped to maintain prices at the current level until September 2023, but recent rises in respect of food, energy and staff pay have resulted in the agreed cost per meal rising by over 10%, this takes the cost of a meal in a secondary school from £2.60 to £2.88. The Executive has agreed not to pass on the increased cost to pupils and to have further discussions with the catering contractor prior to deciding on the price charged from September 2023 onwards. The additional cost will then fall on the Service and, as a result, an increase of £29k is required to meet this additional cost.

4.5. The net effect of these proposals is to increase the net revenue budget by £218k, which is £21k higher than the funding available. The additional cost would be funded by increasing the use of general balances from £1,759k to £1,780k.

5. ROBUSTNESS OF ESTIMATES

5.1. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of budget estimates and the adequacy of the proposed financial reserves.

5.2. Budget estimates are based on assumptions of future expenditure and income and contain an element of assumption risk. The impact of this risk can be mitigated through contingency plans, contingency budgets and financial reserves.

5.3. The robustness of budget estimates is not simply a question of whether they are correctly calculated. In practice, many budgets are based on estimates or forecasts, and there may be an element of risk as to whether plans will be delivered or targets achieved. Different risks to the budget are considered in turn below:-

- **Inflation Risk** – When inflation levels are low and the overall movement in the inflation rate is small, then the inflation risk is low, as has been the case for a number of years. However, there is a greater level of uncertainty surrounding pay and price inflation in 2023/24, and this significantly increases the risk. The general measure of inflation (CPI) peaked in December 2022, and has begun to fall during the first quarter of 2023, however, there is a great deal of uncertainty as to how quickly it will fall, with the optimistic forecast show it will fall to around 2% by the end of 2023, whilst the more pessimistic forecasts showing that it will be around 8% by the end of 2023. In addition, the inflation for some types of expenditure may remain higher than this (food, energy, building materials) and the actual inflation faced by the Council may differ greatly from the CPI figure. To some extent, the Council is protected from this risk because a majority of our larger contracts (school meals, highway maintenance, refuse collection etc.) use inflation indices from September, October or November 2022 to determine the inflation for 2023/24. Given that these figures are known, they have been built into the proposed budget for 2023/24.

- **Pay Inflation** - Pay is the Council's largest cost, and the pay award for non-teaching staff for 2023/24 has yet to be agreed. The Unions have submitted a pay claim of RPI + 2% (equates to around 15%). The budget proposal allows for an increase of 3.5% for 2023/24. Any award above these figures would have to be funded from the Council's reserves, with each 1% increase adding around £600k to the Council's pay bill. The teachers' pay award up to September 2023 has been set and paid (5%), a further offer taking the pay award to 6.5% has been made by Welsh Government. The Welsh Government has also announced an indicative pay rise of 3.5% for teachers from September 2023 and this has been allowed for in the budget although, again, there is a risk that this will not be accepted by the teaching unions.
- **Interest Rate Risk** - Interest rates affect a single year's revenue budget through the interest earned - i.e. an interest rate rise is beneficial. The Authority's Treasury Management Strategy requires investments to be made on the grounds of security and liquidity of the investment as the first consideration, with investment returns being a lower priority, therefore, the budget is not reliant on high investment returns. Interest rates have risen significantly in the past 12 months, with the Council now receiving over 3% on its investments. In setting the budget, an estimate of the interest receivable has been factored into the budget, but there is a risk that the budget will not be achieved if interest rates begin to fall quickly or if the funds available to be invested are lower than forecast. The majority of the interest paid by the Council relates to fixed rate loans which will not change should the interest rate rise. Therefore, the interest rate risk is considered low and, as in previous years, this is a compensating risk for inflation risk, because if one increases, the other is likely to increase also.
- **Grants Risk** - These are risks attached to the large number of specific grants from WG, or other bodies which support a good proportion of Council spending. The final settlement indicates that the majority of the grants received from Welsh Government will increase or remain at the 2022/23 level, which significantly reduces the Council's risk. Whilst the immediate response is to say that when the grant ceases, so must the associated expenditure, there is a risk that this may not always be possible. It may not be possible when contract terms mean the expenditure cannot be cut as quickly as the income, or it involves unfunded severance costs. It may not be possible if the activity funded turns out to be so important to the delivery of the Council's own priorities that the Council decided it must continue the expenditure. Efforts to mitigate this risk are to ensure we have the best information available on each grant, but significant changes during the year cannot be entirely ruled out.
- **Income Risks** – The budget is based on securing an overall 3% increase in fees, and a number of services have assumed rises up to 3%. If the elasticity of demand for Council Services is such that volume falls, and income targets are not achieved, that may cause overspending on net budgets. The cost of living crisis may have an impact on the income generated from services such as leisure, car parking, planning and building regulations, where users may choose to reduce their expenditure on these non-essential services. This will require close monitoring of the net budget position and, if necessary, cutting back on spending to match reduced income.

- **Demand Risk** – A number of services can experience a change in the demand for its services. Some can be predicted and taken into account when setting the budget e.g. changes in pupil numbers. Others are more difficult to predict and a small increase in numbers can have a significant impact on costs. The budget allows for providing the service at current levels, with increases in demand covered by the Council's general balances or, in some cases, earmarked reserves. Allowance has been made in the 2023/24 budget for the current level of service demand for social care and homelessness prevention, although there is a risk of the increase in demand continuing in 2023/24 above what has been allowed for in the budget. This would result in an overspend in those services affected, which would have to be funded from the Council's general reserves and balances.
- **Optimum Risk** – In previous years, probably the greatest risk in current circumstances is that the Authority, Members and Officers have been over-optimistic in the savings that will be achieved or that demand for services, particularly social care, will not increase significantly. For 2023/24, there are no savings proposed and, as such, this risk is not applicable to the 2023/24 budget but the demand risk is still applicable (see above).
- **Over-caution Risk** – This is the opposite of optimum risk: the danger that our budgets have been drawn up with too much caution and, so, are more than is required, and this would result in the Council Tax being set at a level that is higher than required, which is something that Members are keen to avoid. The Section 151 Officer is satisfied with the budget setting process and that the budget set is a fair assessment of the resources required by each service, based on the relevant factors as they stand at the moment.
- **Council Tax Premium** – In setting the taxbase, it is accepted that the number of empty properties and second homes can change during the year and, as such, only 80% of eligible properties are included in the taxbase. This protects the Council's budget should there be a significant drop in numbers. However, it should be noted that the number of empty properties used in the taxbase calculation rose from 324 properties in October 2021 to 334 properties in October 2022, and the number of second homes rose from 2,149 to 2,180 over the same period, even though the second home premium rose from 35% to 50%. The change in the level of the second home premium from 50% to 75% presents a significant risk in 2023/24. The increase may encourage second home owners to sell or let their property i.e. one of the intended purposes of increasing the premium, however, it may encourage a greater amount of non payment or avoidance by transferring to business rates or by other avoidance means. To mitigate the risk, additional staff will be employed to identify tax avoidance and minimise the amount of the premium lost as a result. As the Executive has committed to using all of the additional premium to address the issues caused by high numbers of second homes on Anglesey, any significant reduction in income would result in a reduction in the funding available for these initiatives in future years.

Council Tax Income – The Council Tax income budget is based on the taxbase calculation as at November of the previous financial year. The taxbase changes constantly during the year, as new properties are included and exemptions and single person discounts are granted. These changes cannot be estimated and, invariably, lead to a difference between the actual debit raised and the budget. The changes in the thresholds for self catering properties to register for Council Tax has started to see a number of self catering properties transferring back to the Council Tax register, but there is a risk that the owners will achieve the new higher thresholds during the forthcoming year, which will allow them to transfer back to the Business Rates register.

The cost of living crisis may also impact on the Council's collection rate, as more households struggle financially with rising costs. This may result in a financial loss in 2023/24 or future years, when uncollectable debts are eventually written off.

- 5.4. Having considered all the risks noted above and the mitigating actions, the Section 151 Officer is of the view that the budgets are robust and deliverable, and the Council's current healthy level of general balances and earmarked reserves provides sufficient mitigation against the risks identified.

6. GENERAL AND SPECIFIC RESERVES

- 6.1. The proposed budget incorporates a number of assumptions in terms of likely levels of income and expenditure in future years. There are, therefore, inevitably a number of financial risks inherent in the proposed budget, which are set out in paragraph 5 above.
- 6.2. In terms of any contingencies and reserves, the Section 151 Officer needs to review these in their totality in conjunction with the base budget itself and the financial risks which face the Authority. In addition, the review should incorporate a medium term view, where needed, and should take into account key developments that may impact on the need and use of one off resources.
- 6.3. A robust view is being taken on managing budget risks and protecting the financial health of the Council at this time. This is particularly the case when one off funds need to be adequately protected to fund future strategic / transformational changes, as opposed to funding significant overspends on the base budget itself.
- 6.4. Account has been taken of the need to keep the immediate reductions in spending, and the resulting impact on services, to a minimum, but this must be balanced against the need to ensure the medium and long term financial stability of the Council, and for savings to be implemented over the coming years in a phased and structured way. In addition, there is always some risk of unforeseen items of expenditure or overspending because of a more general pressure on a service budget, and reserves must also be adequate to absorb these pressures.
- 6.5. As at 31 March 2022, the Council's general reserves stood at £12.278m, which is equivalent to 8.35% of the Council's net revenue budget for 2021/22, 11.75% if the delegated schools' budget is excluded. During the year, £0.5m was allocated to fund highway repairs and £1.073m was added to the delegated school's budget to fund additional pay costs, £4.139m has been transferred from service and other earmarked reserves. Therefore, the revised forecast level currently stands at £14.844m, although this assumes that there will be no over or underspend of the 2022/23 budget. After allowing for the use of £1.780m as funding for the 2023/24 revenue budget, the revised balance would fall to £13.064m, or 7.55% of the 2023/24 net revenue budget.
- 6.6. The transfer of earmarked reserves back to general balances, and the use of these reserves during the year, has reduced the balance from £24.46m at the beginning of 2022/23 down to a forecasted level of £9.973m at the end of the financial year.
- 6.7. School balances began the 2022/23 financial year at £7.83m, but are forecast to fall to £3.29m by the end of 2022/23, with a further £1.78m being used to balance individual school budgets in 2023/24.
- 6.8. The level of general balances is a matter for the Council to decide based on the recommendation of the Council's Section 151 Officer but, as a general rule, 5% of the net revenue budget is considered to be an acceptable level. It is a matter for debate whether the net revenue budget should exclude the delegated schools budget, as schools hold their own balances to meet unexpected costs. Based on the current financial situation, there is a high degree of confidence that the level of general balances will exceed 5% of the net revenue budget at the beginning of the 2022/23 financial year.
- 6.9. Having taken into consideration the level of the Council's general balances, school balances, earmarked reserves and contingency budgets, the Section 151 Officer is content that the Council's financial position is sufficiently robust to withstand any difficulties that may arise during 2023/24 if the proposed revenue budget is insufficient to meet the actual costs incurred by the Council during 2022/23.

7. COUNCIL TAX

- 7.1. The Council's Band D Council Tax charge for 2021/22 was £1,367.46, which was 18th from the 22 Authorities in Wales and is lower than the Welsh Average of £1,461. More importantly for Anglesey is the comparison to the 5 other North Wales authorities. This is shown in Table 3 below:-

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

Authority	Band D Charge 2022/23 £	Amount Above / Below Anglesey £	Percentage Above / Below Anglesey %
Anglesey	1,367		
Gwynedd	1,527	+ 160	+ 11.7%
Conwy	1,438	+ 71	+ 5.2%
Denbighshire	1,479	+ 112	+ 8.2%
Flintshire	1,450	+ 83	+ 6.1%
Wrexham	1,372	+ 5	+ 0.4%

- 7.2. The Council Tax budget for 2023/24 (prior to an increase in the Council Tax but after adjusting for the change in the Council Tax Base and premium) is £44.9m. Therefore, each 1% increase generates an additional £449k.
- 7.3. After taking into account the anticipated final settlement figure of £123.663m, the revised budget requirement of £172.567m (see Appendix 2) and the use of £1.780m of reserves, it would require £47.124m in Council Tax funding. To fund the revised budget requirement, the increase in the level of Council Tax would be 5.00%, taking the Band D charge to £1,435.86, an increase of £68.40, or £1.32 per week.

8. EQUALITIES IMPACT ASSESSMENT

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

9. UPDATING THE MEDIUM TERM FINANCIAL STRATEGY

- 9.1. As stated in paragraph 1, the economic situation has changed considerably since the Council approved the Medium Term Financial Strategy (MTFS) in September 2022. In addition the higher than anticipated provisional local government settlement for 2023/24 also changes the strategy significantly.
- 9.2. The main area of uncertainty for the MTFS moving forward is inflation and its impact on future pay awards, whilst the cost of living crisis and its impact on the demand for Council services is also a major factor.

9.3. The updated MTFP for 2024/25 and 2025/26 is shown in Table 4 below:-

Table 4
Summary Medium Term Financial Plan 2024/25 & 2025/26

	2024/25 £'m	2025/26 £'m
Net Revenue Budget B/F	172.567	176.854
Budget Pressures and Inflation	8.806	5.128
Revised Standstill Budget	181.373	181.982
Aggregate External Finance (AEF) (assuming 3.0% rise in 24/25 and 2.0% rise in 2025/26)	127.373	129.920
Council Tax (assuming 5% rise in 2024/25 & 2025/26)	49.481	51.955
Total Funding	176.854	181.875
Additional Funding Requirement / Savings Required	4.519	0.107
Main Assumptions		
Pay Awards – Non Teaching	3.5%	2.0%
Pay Awards - Teaching	4.8%	2.0%
General Inflation	2.0%	1.2%

9.4. The MTFP estimate above is based on a number of assumptions which may change as we move towards 2024/25, but the plan indicates that there will be a need to make significant reductions in the net revenue expenditure budget in 2024/25 (over £4.5m). This again could be partly offset by the further use of reserves but again this only postpones the need to make budget reductions until 2025/26.

9.5. The situation does improve in 2025/26, with only a very small shortfall in funding projected but this is dependent on the continued strategy to increase Council Tax by 5% per annum.

9.6. An updated MTFP will be presented to the Executive in September 2023.

10. CONCLUSIONS

10.1. It is important that the budget set is achievable and reflects the demands faced by services currently, although it is noted that the continuation of the cost of living crisis or a re-emergence of Covid restrictions would have a significant impact on the Council's budget.

10.2. The local government settlement is better than anticipated, and allows the Council to set a balanced budget in 2023/24, with only limited reductions in service budgets, a modest use of service reserves and a below inflation increase in Council Tax. However, it does also take the Council back to a position where significant investment in Council services is not possible.

10.3. The Council's general financial position is still fairly strong, although the level of balances and earmarked reserves have diminished during 2022/23 and, although the use of reserves to balance the 2023/24 budget is a fairly safe strategy, it is not a strategy that can be used long term.

- 10.4.** The position in 2024/25 appears to be more difficult and, unless Welsh Government funding increases by more than inflation and / or pay awards are limited and the general level of inflation reduces, then significant budget reductions will be required or Council Tax will have to rise above the 5% allowed for in the MTFP.
- 10.5.** Therefore, in the professional opinion of the Section 151 Officer, the proposed revenue budget for 2023/24 achieves the following objectives:-
- Ensures that the financial resources allocated to each service is sufficient to meet the current budget pressures and fulfil the demand for the statutory functions which the services must provide.
 - Uses a combination of budget reductions, reserves and a rise in Council Tax to set a balanced budget.
 - Sets a level of Council Tax which is comparable with the Welsh Government's assessment of where Anglesey's Council Tax should be, and is in line with the Council Tax set by other Welsh authorities of a similar size and type.

11. RECOMMENDATIONS

- 11.1.** The Executive is recommended to approve the final budget proposal, as set out in Paragraph 4, to the full Council meeting on 9 March 2023.

FINAL BUDGET PROPOSAL 2023/24 BY SERVICE

	Final Proposed Budget 2023/24 £
Education and Culture	63,319,619
Adult Services	34,973,049
Children's Services	12,965,415
Housing Services	1,590,036
Highways, Waste and Property	19,755,398
Regulation and Economic Development	5,754,153
Corporate Transformation	6,993,174
Resources	3,723,134
Council Business	2,013,794
Corporate Management	759,918
Total Service Budgets	151,847,690
Corporate and Democratic Costs	3,244,158
Recharges to HRA	(800,000)
Support for Local Housing Help to Buy Schemes	1,501,907
Levies	4,503,685
Capital Financing	4,328,774
Benefits Granted	109,240
Discretionary Rate Relief	105,000
Council Tax Reduction Scheme	6,751,765
Total Allocated Budgets	171,592,219
General & Other Contingencies	974,768
Total Budget 2023/24	172,566,987
Funded By	
Revenue Support Grant	100,839,789
Non Domestic Rates	22,822,905
Council Tax (Including Council Tax Premium)	47,124,293
Council Reserves	1,780,000
Total Funding	172,566,987
Difference Budget to Funding	

