

REPORT TO CABINET
18 February 2014

Cabinet Member: Cllr Peredur Jenkins

Subject: 2014/15 Budget and 2014/15 – 2017/18 Financial Strategy

Contact Officer: Dilwyn Williams, Corporate Director

Decision sought

- 1 To recommend to the Council that a budget of £231,648,200 should be set for 2014/15 to be funded by £174,970,570 of Government Grant and an increase of 3.5% in the Council Tax which would generate Council Tax income of £54,973,640 with the remaining gap being funded by utilizing £1,703,990 of Council balances.
- 2 That we should establish a capital programme of £16.193m in 2014/15 and £17.974m in 2015/16 to be funded from sources noted in clause 10.7 of the appendix.
- 3 That we should also consult the Council on the proposals to deal with the financial problem with which we are faced for the next 4 years which is outlined in paragraphs 19-26 of this report and part 11 of the appendix.

Opinion of local member

Not a local matter

Introduction

1. The Council has to set a balanced budget for the year ahead (2014/15) ensuring that the expenditure balances with the income.
2. Historically, and in accordance with good practice, the Council has established its' annual budget within the context of the medium term financial strategy in order to ensure that the budget is prepared for the

situation ahead rather than meeting the requirements of one year at a time.

3. This has proven to be of benefit to us in the past as we have been able to find savings in a rational and sensible way rather than having to take rushed decisions, which often lead to the wrong decisions in terms of the benefits to our citizens.
4. It is a matter for the Cabinet to consider all of these issues and recommend an appropriate budget to the Council for 2014/15. There is also a role for the Audit Committee to consider the proposals which are to be recommended in order to consider whether they are financially appropriate.
5. In addition, in the light of the difficult financial environment in front of us, as we need to plan ahead for future years in order to seed ideas early enough to be able to meet the situation with which we are faced, the Cabinet will no doubt wish to consult the Council on what it proposes to do in order to cope with the situation.
6. The appendix attached to this report details all the relevant matters that need to be considered when establishing the 2014/15 budget along with those issues which impinge upon the establishment of a medium term strategy.

A) 2014/15 BUDGET

7. The proposals for 2014/15 can be summarised as follows -

	£m
2014/15 Expenditure Requirements	240.30
Less Government Grant Income	(174.97)
Less Council Tax (based on an increase of 3.5%)	(54.97)
Deficit -	10.36
Reduce specific budgets	(3.06)
Savings being delivered and available in 14/15	(5.52)
To be met from balances and savings found early	1.78
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8. In 2014/15 an assessment of our expenditure requirements suggests that we need to increase our expenditure to £240.30m.

9. This includes £1.4m to meet the costs of transfers into the settlement along with £1.5m to meet pressures on budgets. Full details are given in part 3 of the attached appendix.
10. There is also a need to provide for £558,000 of one off requirements to be funded by adding £128,750 of savings found early to the provision of £297,250 which is already in the budget to provide for one off requirements, and using £132,000 of balances to fund the remainder.
11. Within the proposed budget we will be complying with the Welsh Government's funding promise for schools but the secondary sector is under pressure due to the effects of demography and the fact that a number of grants given to them by Welsh Government are being reduced.
12. In order to assist the sector to have sufficient time to cope with lower budgets the Education Service intends to assist by giving schools a one off contribution of £160,000 in 2014/15 and I recommend that a further £250,000 should be added from balances to assist further. The proposed budget also implements a temporary protection scheme to assist any school which falls below 260 pupils in order to buy time to come to a more permanent solution. However this underlines the need to find a longer term sustainable solution for this problem. Details are given in part 4 of the appendix.
13. The grant that we receive from the Welsh Government will reduce 4.4% to £174.97m. which is a much larger reduction than anything seen since local government reorganisation in 1996.
14. Therefore, in order to meet the financial gap that this creates in 2014/15 it will be possible to reduce some budgets without impairing on present front line service budgets and it will be possible to call upon savings which are already being found of £5.52m.
15. We had originally anticipated that there would be £6.2m of savings available in 2014/15 but there is one scheme which will no longer deliver the anticipated savings when the original business case was prepared, and there is another £450,000 of savings which where the delivery profile has slipped into 2015/16. The deficit which the slippage creates can be covered by meeting it from savings found before they are required. Details in relation to these issues are given in part 6 of the appendix.

16. It is recommended that the remaining gap is funded by increasing the Council tax by 3.5% which will generate £1.86m and that we should use £1.33m of balances to fund the remaining gap.
17. There is a further question in part 8 of the appendix in relation to taking action in respect of low pay in the Council. The above recommendation in relation to the Council Tax does not take this into account.
18. Within the proposed budget the main risk is that we will not now have a contingency budget on which we can call and we will have to fall back on balances if we have an unexpected financial pressure.
19. In the light of the need to review every strategy (including the asset strategy) it is also proposed that we do not add to the capital programme approved by the Council last year, but that we should amend the programme to take account of unavoidable changes as shown in appendix 3 which will mean having a programme of £16.193m in 2014/15 and £17.974m in 2015/16. The programme continues to spend on capital schemes at a much greater level than the resource which we receive from Welsh Government to support our programme.

B) MEDIUM TERM STRATEGY

20. For the 4 year period 2014/15 – 2017/18 our analysis of the situation shows that we might be facing a financial gap of over £51m over the period with projections for grant reduction responsible for £20m of this sum.
21. If the Council was content to increase the Council Tax 3.5% per year on average over the next 4 years, along with the steps which we intend to take in 2014/15 and with savings already being found, this would mean that we would be faced with finding additional savings worth nearly £34m in the three years from 2015/16 onwards.

22. The position is summarized in the table given below -

£M	2014/15	2015/16	2016/17	2017/18	Total
Additional spending needs	6.4	7.7	10.2	6.7	31.0
Grant loss (increase)	6.7	4.4	3.5	6.1	20.7
Council Tax (*)	(2.7)	(1.8)	(1.9)	(2.0)	(8.4)
Planned deficit	10.4	10.3	11.8	10.8	43.3
Budgetary adjustments	(3.1)				(3.1)
Current Savings programme	(5.5)	(0.7)	(0.2)		(6.4)
Use of balances and early savings	(1.8)	1.8			-
To be found -	(-)	11.4	11.6	10.8	33.8

23. The implications for all other council services in having to find savings of £34m whilst protecting schools are so far reaching that we must keep all of our options open in order to allow us room to manouver when we see the effects of the savings which we will have to implement especially when we have to implement cuts.

24. In this respect therefore, it is recommended that we should work on the following range of possibilities -

Council Tax Policy	Consider increase in the Council Tax in the 3.5% - 5% range
Schools Budget	Consider setting a target for the schools budget based on what is practical
Commission on Public Service Governance and Delivery	Consider whether there will be any savings arising from reorganisation which we can depend upon and take into account
Efficiency Savings	Maximising the efficiency savings that can be achieved
Service Cuts	Figure remaining

25. We intend to address the need for more efficiency savings by establishing differential targets for each service based on an assessment of the opportunities which exist to find such savings. Cabinet Members and Heads of Service will then formulate schemes to deliver such efficiency savngs.

26. At the same time we intend to establish an inclusive programme in order to establish priorities so that we can ensure that any service cuts reflect the priorities of the people of Gwynedd.

27. We intend to address these needs now, but the necessary regimes will take time to put into effect. We do have some time to undertake the work due to the financial plans drawn up in the past, but we must be cautious that we do not lose any opportunities that present themselves in the meantime, and the Cabinet will take advantage of any opportunity which presents itself in the meantime to deliver savings.

Reasons for recommending the decision

28. The whole strategy tries to protect the services provided to the people of Gwynedd whilst keeping the Council Tax increase to the minimum which is consistent with that aim.
29. It also tries to ensure that any savings which we will have to deliver will be found from those areas which will have the least effect upon our citizens.
30. A Council Tax increase of 3.5% is recommended for 2014/15 in order to spread the variable annual effect of the financial squeeze consistently so that we do not have a low council tax increase in one year only to have to implement a massive hike in another year.
31. We foresee that there will be other councils in Wales which will increase council tax at a level greater than this and I certainly consider it to be the minimum we have to increase if we are to have any possibility of addressing the massive financial gap that we anticipate.

Relevant considerations

32. As noted above, it is possible to increase the Council Tax by a greater or lesser amount which will then affect the level of savings which we will have to find.
33. We cannot affect the grant which we receive from the Welsh Government (although officers and members are continually doing work to try and ensure fairness in the distribution formula) but in terms of the remaining parts of the equation we can change the spending amount but there are consequences to that of course.
34. It is a matter for the Council to consider the budget to be set for 2014/15 on the basis of the issues noted in the attached appendix and to consider whether they wish to change the level of spending and the Council tax

- level but for my part as the Cabinet Member I consider this to be the appropriate balance.
35. As part of a process of being inclusive, I am currently consulting the Council's members through a series of seminars over the days leading up to the meeting of the Cabinet and I will report orally on any observations received during that process so that the Cabinet may take them into account before making appropriate recommendations to the Council and it will then be a matter for the Council to adopt that budget or not.
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Views of the Statutory Officers

Chief Executive:

Last Autumn the Council's financial prospects worsened suddenly by £8m when the Welsh Government confirmed a change to its original plans for Council grant in 2014/15. The Council had an appropriate strategy in place to deal with the original grant figures and decided not to rush into a new round of cuts to deal with the extra deficit. This was done in order to buy time for the Council to come up with new efficiency measures and to better understand potential cuts to services.

The downside of the strategy is that the Council's proposed budget in 2014/15 is probably the tightest budget since its formation in 1996. There will be no contingency budgets for unanticipated increases in permanent expenditure during the year; there is considerable use of balances which defer making difficult budgetary decisions and there are emerging budgetary pressures which are difficult to quantify at this stage.

This approach puts enormous pressure and accountability on the Cabinet to make efficiency savings and cuts during 2014/15 well in advance of April 2015 so that we are, once again, back on the front foot. In order to succeed the Cabinet will benefit from a focussed input from the Scrutiny Members. The Council faces a daunting financial challenge but, providing everyone performs their roles effectively and given our good track record, we can be confident of controlling the damage to Council services in Gwynedd.

Monitoring Officer:

Although it is for the Full Council to make the final decision on the budget it is important that the Cabinet provides a clear recommendation regarding its spending plans and draft budget and this report fulfils that requirement. Once the Council has agreed on the funding sources then it is the Cabinet who will be responsible for the expenditure and prioritisation within that budget, including realising any necessary savings. The financial strategy on the other hand is a matter for the Cabinet to decide but

in doing so it would be desirable for it to be inclusive and consult with the Council. I support the intention to do so.

Head of Finance:

These observations form the Chief Finance Officer's report on the "robustness of estimates" and "adequacy of financial reserves" in accordance with s.25 of the Local Government Act 2003. The Council must have regard to this, and associated risks identified by the Chief Finance Officer, when determining the annual budget and level of Council Tax.

When the members reach a decision on the use of balances in the budget setting cycle, it is essential to consider and assess the risks facing the Council. I am providing this opinion after considering the financial position, commitments and fundamental assumptions in the budget, such as inflation rates and interest, the change in the demand for services, estimates on the savings plans, etc.

I have been involved in relevant discussions as the Cabinet Member for Resources and the Corporate Director devised this financial strategy, and I can confirm the reasonableness of the forecasts submitted in this report regarding the Council's spending needs for 2014/15 and beyond, although some uncertainty and further strain is inevitable with pressure on our budget from several directions. However, I believe that the assumptions in the Corporate Director's report are fair and that those assumptions produce financial figures with a measured and acceptable level of risk.

In order to mitigate the risk associated with the financial strategy in 2013/14, Cabinet Members, Heads of Department, service managers and accountants responsible for the Council's budgets have generally acted with discipline and diligence to manage expenditure and secure income. Conscientious financial management will need to be reinforced in 2014/15, as our financial flexibility has diminished.

Further to an unprecedented challenging grant settlement from the Welsh Government for 2014/15 and in the generally difficult financial climate, there is no doubt that the Council will need a prudent level of balances for 2015/16 and beyond, in order that it can meet unavoidable redundancy costs and further bridging costs in the years ahead before its larger savings plans can be realised.

However, as our current level of balances (about £8m) are at a prudent level, and as Gwynedd has a savings strategy for the years ahead, with the promise from Cabinet members that they will adhere to plans to prioritise in 2014, I support the steps recommended, including using a reasonable portion of balances (around £1.8m) in order to bridge the gap in 2014/15 and to allow the Council time to implement an appropriate savings programme.

I am convinced that what is recommended here is prudent if the Council acts appropriately during 2014 in preparation for 2015/16 and beyond. However, this will mean a challenging and key role for the Cabinet, making a number of difficult decisions

whilst prioritising to achieve savings, as agreed in principle with the members whilst developing this Financial Strategy.

Attachments

2014/15 – 2017/18 Financial Strategy and 2014/15 Budget Report