

REPORT TO THE CABINET
19 February 2015

Cabinet Member: Councillor Peredur Jenkins

Subject: 2015/16 Budget and 2015/16 – 2017/18 Financial Strategy

Contact Officer: Dafydd L Edwards, Head of Finance

Decision sought

- 1.1 Recommend to the Council that a budget of £228,193,060 should be set for 2015/16 to be funded by £168,311,989 of Government Grant and an increase in Council Tax of –

Council Tax Increase %	Council Tax Income £	Gap to be financed by using balances £
3.5%	57,308,682	2,572,389
4.0%	57,585,535	2,295,536
4.5%	57,862,389	2,018,682
5.0%	58,139,242	1,741,829

- 1.2 Establish a capital programme of £19.179m in 2015/16 and £21.270m in 2016/17 to be funded from sources noted in clause 9.4 of the appendix.
- 1.3 Continue to consult with the Council on the proposals to deal with the financial gap which we are facing for the next three years.
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Introduction

1. The Council has to set a balanced budget for the year ahead (2015/16) ensuring that the expenditure balances with its income.
2. Historically, and in accordance with good practice (which has been recognised by the Wales Audit Office), the Council has established its annual budget within the context of a medium term financial strategy in order to ensure that the budget is prepared for the position ahead, rather than meeting the requirements of one year alone.
3. This medium term planning has proven to be of benefit to us as we have been able to plan necessary savings rationally, without having to take rushed / wrong decisions in terms of the benefits to our citizens.
4. Having consulted in a series of seminars and with the Audit Committee, it is a matter for the Cabinet to consider the 2015/16 – 2017/18 financial strategy, recommending an appropriate budget to the Council for 2015/16.

5. The appendix attached to this report details all the relevant matters that need to be considered when establishing the 2015/16 budget together with those issues which influence the establishment of a strategy for the future.

A) 2015/16 BUDGET

6. The options for 2015/16 can be summarised as follows –

Council Tax Increase %	3.50%	4.00%	4.50%	5.00%
2015/16 Expenditure Requirements	£236,819,647	£236,819,647	£236,819,647	£236,819,647
Less Government Grant income	£168,311,989	£168,311,989	£168,311,989	£168,311,989
Less Council Tax income	£57,308,682	£57,585,535	£57,862,389	£58,139,242
Deficit	£11,198,976	£10,922,123	£10,645,269	£10,368,416
Savings which will be achieved	£8,626,587	£8,626,587	£8,626,587	£8,626,587
Balance to be met from Balances	£2,572,389	£2,295,536	£2,018,682	£1,741,829

7. By 2015/16, an assessment of our fundamental expenditure requirements suggests that we need to increase our expenditure to £236.82m in order to “stand still”.
8. This includes £313,000 to meet the costs of transfers into the settlement along with £876,000 to meet pressures on budgets. Full details are given in part 3 of the attached appendix.
9. There is also a need to meet one-off requirements equivalent to £373,000, funded by using the provision in reserve which was already in the fundamental budget.
10. Within the proposed budget, it is anticipated that we will be complying with the Welsh Government’s funding promise for schools, but they are facing pressure on their delegated budgets due to an increase in teachers’ pensions costs, and an increase in the cost of integrating pupils with Additional Learning Needs.
11. It is outlined in part 4 of the appendix how £952,000 could be saved from schools budgets in 2015/16, with a marginal effect on the pupil to teacher ratio, and keep within the restrictions of the “promise”.
12. The grant that we will receive from the Welsh Government for 2015/16 will reduce 4% to £168.3m, which is another substantial reduction following the 4.4% reduction by 2014/15.
13. In order to meet the financial gap that this creates in 2015/16 it will be possible to attribute the schools’ £952k savings, call upon £6.5m of new efficiency savings which are already in progress, together with £278k of old savings which were planned for 2015/16.

14. The Strategic Review of the Highways field also presents an opportunity to contribute towards closing the gap in 2015/16. It will have to wait until a subsequent meeting of the Cabinet to consider the report on the review before coming to a final conclusion. However, for the purposes of financial planning, it is estimated that we could make a saving of £550,000 as an additional amount to the above savings.
15. We also anticipate that there will be savings available in 2015/16 by achieving £305,000 worth of "early cuts" in some support services and on some corporate budgets.
16. It is recommended that the remaining gap is funded by a combination of increasing the Council Tax and using the Council's general balances. By selecting how much (%) to increase the Council Tax, the medium term implications on cuts should be considered (see part B below).
17. Briefly, by raising the Council Tax 4.5% instead of 3.5% by 2015/16, it would be possible to avoid cutting services worth £553,707 for the people of Gwynedd in 2016/17.
18. Within the proposed budget, the main risk is the fact that there will not be any general contingency budget (apart from the specific provision for fuel inflation). We would have to fall back on the Council's balances if there were other unexpected financial calls.
19. For the time being, before completing a more thorough review of the Asset Management Plan, we have increased the 2015/16 capital programme where appropriate (adjusting the programme in the wake of some unavoidable changes) and established a programme on the basis of the minimum required for 2016/17, as noted in Appendix 3, which will mean a programme of £19.18m in 2015/16 and £21.27m in 2016/17. The programme continues to spend on capital schemes at a greater level than the resource which we receive from Welsh Government to support our capital programme, but it is not considered that the present level of borrowing will overstretch the Council.

B) MEDIUM TERM STRATEGY

20. It was reported a year ago that we might be facing a financial gap of over £51m over the 4 year period 2014/15 – 2017/18 with projections for grant reduction responsible for £20m of this sum. By now, a grant reduction of over £2.3m is expected, therefore the gap has increased to around £53m.
21. If the Council was content to increase the Council Tax 4.5% in 2015/16 and 3.5% in 2016/17 and 2017/18, along with the steps intended to be taken together with the savings which are already being realised, this would still mean that we would need to look for additional savings worth around £34m in the three years from 2015/16 onwards.

22. The proposed position is summarized in the table below:

	2014/15	2015/16	2016/17	2017/18	Total
	£m	£m	£m	£m	£m
Additional spending needs	6.4	6.1	10.2	6.7	29.4
Grant loss (increase)	6.7	7.1	3.5	6.1	23.4
The Gap	13.1	13.2	13.7	12.8	52.8
Council Tax	-2.7	-2.5	-1.9	-2.0	-9.1
Planned Deficit	10.4	10.7	11.8	10.8	43.7
Old Savings Schemes	-8.6	-0.5	-0.2	0.0	-9.3
New Savings Schemes	0.0	-8.2	-2.7	-3.8	-14.7
To be found / use of balances	1.8	2.0	8.9	7.0	19.7
					34.4

23. Therefore, it is recommended that we should continue to work on the basis of the same range of possibilities as already agreed for 2015/16 – 2017/18, namely:

Council Tax Policy	Consider increase in the Council Tax in the 3.5% - 5% range
Schools Budget	Set a target of £4.3m for the schools budget
Efficiency Savings	Maximising the efficiency savings that can be achieved
Cuts	Figure remaining

24. The strategy to ensure more efficiency savings is already in hand with schemes worth £13m recommended to be implemented, and others receiving further attention.

25. The strategy to prioritise cuts has also started, and an inclusive programme to establish priorities will continue between now and October 2015 in order to try to ensure that the unavoidable cuts reflect the priorities of the people of Gwynedd.

26. Whilst we are addressing these needs now, regimes like this take time to deliver. We must be cautious that we do not lose any opportunities that arise in the meantime, and the Cabinet should take advantage of opportunities which arise in the meantime to deliver savings, such as the "early cuts", Highways Strategic Review, etc.

Reasons for recommending the decision

27. The whole strategy attempts to protect the services the Council provides for the people of Gwynedd whilst keeping the Council Tax increase to the minimum which is consistent with that aim.
28. 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.
29. It is recommended that a Council Tax increase of above 3.5% be considered for 2015/16 in order to reduce the cuts which will have to be faced in 2016/17.
30. We foresee that 12 other councils in Wales will increase the Council Tax at a level of between 4.5% and 5% and I consider that 4.5% is reasonable as a step towards addressing the massive gap that we are facing.

Relevant considerations

31. As noted above, it is possible to charge less or more Council Tax which will affect the level of cuts which will be required over the period.
 32. We cannot affect the grant which we receive from Welsh Government (although officers and members are continually working to try to ensure that the distribution formula is fair). It is possible to change expenditure figures, but there are consequences to that, of course.
 33. It is a matter for the Council to consider the budget to be set for 2015/16 on the basis of the issues noted in the attached appendix, and to consider whether they wish to change any element, but for my part as Cabinet Member, I believe it should be considered that the Council Tax be increased to a level between 3.5% and 5%.
 34. As part of a process of being inclusive, I am consulting with the Council's members through a series of seminars over the days leading up to the Cabinet meeting. I will report orally on observations received during that process, so that the Cabinet may consider members' views on the options before making recommendations regarding the budget to the Council. It will be a matter for the Council to adopt that budget or not.
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Opinion of local member

Not a local matter

Views of the Statutory Officers**Chief Executive:**

Once again this year, the Cabinet and, eventually, the full Council, is asked to try to strike the correct balance between taxation and saving, and this at a most challenging time. I welcome the proposals as an attempt to strike that balance, and also the steps the Cabinet Member for Resources and the Head of Finance are taking to discuss their proposals with members before they are brought before the Cabinet and the Council.

Monitoring Officer:

The report highlights the responses to the financial challenges of 2015/16. Specific plans are set out within the strategy to address this situation. As the Cabinet forms recommendations for the Council, it is important that they pay attention to statutory requirements that are attached to the realisation of these plans where relevant. Further guidance will be given in the meeting.

Head of Finance:

I have collaborated with the Cabinet Member in the preparation of this report and I confirm the content.

Attachments

2015/16 Budget and 2015/16 – 2017/18 Financial Strategy Report