

**2013/14 BUDGET
and
2013/14 – 2016/17 FINANCIAL STRATEGY**

1 Background

- 1.1 This report notes the factors that influence the revenue budget required for 2013/14.
- 1.2 In the light of these factors, the report also recommends a medium term financial strategy for the period to the end of the term of the present Council (namely 2016/17) and it notes the factors that influence the capital programme for the three years 2013/14 – 2015/16.

A) 2013/14 Budget

2 Welsh Government Grant

- 2.1 The Welsh Government has published the final settlement for 2013/14 together with indicative figures for the following year. The details are noted below in Table 1.

**Table 1
2013/14 – 2014/15 Increase in Revenue Support Grant**

| £m | 2013/14 | | 2014/15 |
|-----------------|-----------|------------|---------|
| | Wales | Gwynedd | Gwynedd |
| 2012/13 | 4,326,633 | 179,704(*) | 183,503 |
| 2013/14 | 4,373,034 | 181,633 | |
| Increase | 1.1% | 1.1% | 1.0% |

* £168.067m was the true grant figure for 2012/13 but this figure was adjusted to take into account the transfers into the settlement in order to compare like with like.

- 2.2 It is apparent from the above table that Gwynedd Council's grant increase is similar to the average increase for Wales, but this hides the fact that an element of the increase for Gwynedd Council results from the fact that the Gwynedd Council tax base has risen less than the average for Wales.
- 2.3 Due to how the grant process works, if a council is able to raise less in council tax than other councils due to a lower increase in its council tax base than other authorities, there is a comparable increase in government grant to offset the loss.
- 2.4 If this had not happened we would probably have seen a lower than average increase due to factors that influence the allocation formula continuing to go against us.

- 2.5 For example the following was apparent for Gwynedd's formula for 2013/14
- Third lowest population increase across Wales;
 - Number of primary aged children, seventh lowest increase across Wales;
 - Number of income support/jobseekers allowance claimants aged under 65 in Gwynedd; second lowest increase across Wales;
 - Number receiving disability or severe disability living allowance has the lowest increase across Wales.
- 2.6 There is a need to be careful not to read too much into the indicative figures for 2014/15 since all that has been done here is moving the figures for 2013/14 forward a year, changing a limited range of figures which impact upon the formula.
- 2.7 Some changes are inevitable by then as the Westminster Government change the sums available to the Welsh Government who will as a result also have to amend their own plans. We could also see further changes in the grant formula by then.
- 2.8 One feature of the grant figure in the settlement for next year is the substantial difference between the actual grant figure this year [£168.067m for Gwynedd] and the figure used for comparison [£179.704m].
- 2.9 The difference of £11.637m comes about due to the Government placing the finance for providing Council Tax Support in the settlement [£8.104m for Gwynedd]. A number of grants [to the value of £3.2m] have also been transferred into the settlement and we have received the second part of the resource provided by the Welsh Government for borrowing to spend on roads. More details are given in part 3.10 of the report.

3 Council Revenue Expenditure - 2013/14

- 3.1 Table 2 below shows the increase in the expenditure required for 2013/14.

Table 2
2013/14 Budget (£'000)

| | 2013/14 |
|---------------------------|-----------------------|
| Base Budget 12/13 | 219,362 |
| Salary Inflation | 1,369 |
| Other Inflation | 1,521 |
| Precepts | (20) |
| Increments | 156 |
| Pensions | 336 |
| Interest on Balances | 173 |
| Borrowing Costs | (449) |
| Demography | 190 |
| Various | (1,186) |
| Less income budgets | 602 |
| Transfers into settlement | 11,723 |
| Pressures on services | 2,058 |
| Total requirement | <u>235,835</u> |

3.2 **Base Budget 12/13** – Although the 2012/13 net budget is shown as £219.362m, it is important to note that the Council’s tru expenditure level is £360m, but this figure comes down to £219m as we receive a multitude of lesser grants worth £91m and raise nearly £50m for services which we provide.

3.3 **Salary Inflation** – This is the main assumption where the figure required for 2013/14 is unknown at present. Obviously there will be pressure from the unions to increase salaries in 2013/14 considering the salary freeze that has been seen over the last three years. However the Chancellor has noted that he wants to see public sector salary settlements restricted to 1% in the years ahead.

There is a provision for an increase of 1% therefore in the base budget. Should this not be required, then it will reduce our need to find savings in 2015/16.

To protect against the risk that it could be higher, the contingency budget has been set at a level which will protect against this risk. [See para 3.12 below]. This provision was also borne in mind when considering the salary increase assumption for the following years. [That is, as we have the contingency budget we can provide for a lower increase in the projections for future years which reduces the projected savings required].

3.4 **Other Inflation** – This figure represents a provision for general inflation of 1.75% but making specific provision for items where the

inflation rate is projected to be higher. Some obvious headings that fall into this category are energy and fuel where historically these increases have been quite different to the general inflation rates.

As the Welsh Government provides us with finance to borrow to invest in the highways and bridges infrastructure inflation has not been added to the highways and bridges structural maintenance heading at present in order to have time to consider whether or not we could use this to assist us to find savings within the financial strategy.

- 3.5 **Increments and Pensions** - This is the increase that results from giving staff salary increments, and the pension figure represents the increase required as a result of the last Pension Fund valuation (which increases our employer's contribution by 0.5% per year up to 1 April 2014).
- 3.6 **Interest on Balances** - by now, we had expected interest rates to have risen but they continue to be at a historical low. This means that the interest we receive on balances now is small and the level must be reviewed downwards in the light of current experience. There is no sign that this is going to improve over the remaining term of the present strategy and the projections for the medium term reflect this.
- 3.7 **Borrowing Costs** - in the projections made, we benefit from lower borrowing costs next year after repaying loans.
- 3.8 **Demography** - Usually, we take account of the higher number of elderly we would expect due to the ageing population, but since the anticipated increase we have been providing for in previous years has not yet materialised, and as the service has not yet had to use all of the provision made in 2010/11, there is no intention of making additional provision in 2013/14, in the expectation that it will be added in 2014/15 if required. [Provision for this has been made in the medium term strategy].

However we have provided for demography with regards to learning disabilities (£171,000) and in the number of school pupils (£19,000).

- 3.9 **Various** - The figure noted here derives from a budget adjustment as a result of the overprovision made in this year's budget for the increase in fuel costs. The increase was less than in previous years and therefore it is possible to remove the sum provided (£1.18m) from the budget.

This represents the direct cost to us together with the indirect cost paid to external service providers.

The Council faces another cost resulting from a loss of income, not accounted for here but rather under the Council Tax Income heading.

The UK Government have decided to restructure the benefits system and one element of the new system is that there will not now be a Council Tax Benefit scheme governed by UK legislation, but instead a Council Tax Support Scheme established by councils individually and to be financed from fixed resources provided to them.

In Wales, the Welsh Government has decided that rather than allowing each Council to establish its own scheme (as in England); there should be one national scheme and the Welsh Government have decided the nature of that scheme.

Unfortunately, at the same time as changing the system, the Westminster Government have reduced the resource available to finance any scheme and the Welsh Government had originally stated that it was not be possible for them to compensate for the financial gap. They therefore drew up a scheme which in their view corresponded to the resource available to pay for it (although there is scepticism from local government whether the cost of the scheme will correspond to the available resource).

The new scheme meant that everyone would pay at least 10% of their Council Tax (whereby previously over 8,000 in Gwynedd received full council tax benefit) with everyone else who is presently receiving Council Tax benefit receiving less support in the future.

The impact on Gwynedd's residents would of course be substantial and the Council had worked to try and alleviate as much of this impact as possible, but with regard to the Council's budget there was also a substantial risk that we would not be able to collect as much of the council tax as we have done in the past.

We therefore had to accept that there was a strong possibility that our collection rate figure (set historically at 99%) would have to be adjusted down to 97.5%. This would continue to be one of the best rates in Wales and time will tell whether this is correct or whether it could be restored towards the previous level or if it needed to be adjusted downwards further.

This was equivalent to a reduction of £784,000 in the income produced from Council Tax which is reflected in the figure noted in paragraph 5 below.

By now however the Welsh Government have changed their view and have found further resources to ensure that each individual who previously received 100% help towards their council tax will continue to receive that help, which in turn means that we should manage to collect more council tax next year than planned when we set the Council Taxbase.

However, the concern remains that the grant given to us will be insufficient to cover the cost of the scheme and an element of this “surplus” will be required to pay for part of the scheme.

Consideration could be given to utilising an element of the remainder to deliver the Council’s desire vocalised at its last meeting in January to assist those affected by the wider benefits changes if we are able to formulate an appropriate scheme.

3.10 Reduce Income Budgets - Income accounts are reviewed annually in order to assess trends and an adverse impact has now been observed on a number of income headings as a result of the recession in addition to the impact of bad weather on some of the Council’s facilities. Some of the Council’s income budgets will therefore need to be reduced in the light of experience. Specifically income budgets in the following areas have had to be reduced -

- Consultancy : £250,000 following a reduction in the fees they are able to produce;
- Car Parks : £170,000 with regards to less income from car parks;
- Hafan Pwllheli : £109,000 following less income now coming in ;
- Other small budgets following a reduction in income from theatres; beaches; other harbours and tourist information centres £82,000.

3.11 Transfers into settlement

- As noted above the Council Tax support scheme now has to be kept within the available resource and the Welsh Government include this in the settlement (this equates to £8.104m for Gwynedd). We do not know if this figure will be sufficient to meet the cost of the scheme but if it is not, the Council will have to absorb the impact.
- £1.362m of this sum relates to the Welsh Government having decided to transfer into the settlement the grant paid at present to fund community placements for individuals with learning disabilities who were previously in hospitals. A distributive impact results from this decision and the Council loses a small sum as a result.
- £874,000 comes into the settlement as the Welsh Government wants to include the cost of special education to those over age 16 in the settlement (we believe this is mainly due to the budget required in this area having risen substantially over the years and they see this as a way of stopping that increase). In due course there will be a review of the distribution formula but at present we have received a sum equivalent to the 2012/13 expenditure.

- The remainder of the amount noted here is the result of transferring a number of grants into the settlement namely resources for the Highways Borrowing Scheme (£530,000); Free Breakfast Provision grants (£555,000); 10-19 year-old Children Counselling Grant (£176,000); Appetite for Life Grant which helps to provide nutritious school meals (£106,260); and Blue Badge grant (£16,000) to recompense the Council for the fact that we can no longer charge for these.

3.12 **Pressures on services** – There are 3 main elements to this heading namely -

a) **Requests received from services for additional resources to meet the pressures on their services (£1.543m).**

Each service has the ability to note if there is any expenditure that the Council has to provide in order to ensure continuation of service. This heading is not for new developments but to ensure continuation of the basic current services.

An element of this has of course become evident as we review this year's spending patterns. Others are a result of matters arising where expenditure is needed to protect outcomes for the public or to meet statutory requirements. There is also a substantial element of the Central Government creating pressures and expectations leaving us to cope with the knock-on effects (over and above the fact that our grant increase is not sufficient to meet inflation).

The details of these items are presented separately in another report.

This figure is significantly lower than what has been seen historically.

That report also refers to the need to approve £394,250 of one-off bids to ensure continuation of services. This can be funded from the £268,050 performance incentive grant funding kept annually for one-off purposes adding a further £126,200 from the Council Tax resource kept aside for 2015/16.

We must also recognise the fact that the temporary budget allocated to employ the team responsible for leading the work on the 21st Century Programme will expire this year and we will have to ensure that we have the budget to continue to employ the team if we are to pursue this work to its conclusion. A permanent budget of £276,730 will be required for this purpose.

b) Schools Requirements (£486,000)

The Head of Education has indicated several requirements within the budget devolved to schools and especially requirements within the inclusion agenda; special education and ensuring appropriate criminal records bureau checks for teachers.

These requirements can be met which will also address the need to ensure a financial increase for schools (see part 4 below).

c) Three Year Plan

This is the expenditure heading for any increase in expenditure for developments.

The Council will have several issues it wishes to prioritise, which will be noted in the Strategic Plan and where there will be a need for investment for the benefit of Gwynedd residents and we need to ensure that it has the resources to do this.

If we are also to be able to ensure the transformation of the way the Council provides services, in line with the presentation given by the Chief Executive to the Council at its 6 December meeting, we need to ensure that there is a budget available for promoting that change. Ultimately of course this could lead to a reduction in costs for the Council which underlines the importance of this area.

However, over the previous years the Council has ensured that it has a budget of £0.9m for this heading and therefore there are no plans to add to it this year.

- 3.13 **Contingency Budget** – a contingency budget of £1.6m already exists since the preparation of the 2012/13 budget, to provide against a pay rise higher than that budgeted for. Bearing in mind the risk that this could occur in the next two years and the substantial risk arising from a number of headings such as Council Tax support; transport (where the Government is reducing support); and a number of other areas where concern was raised during the budget preparation process about the sufficiency of the current provision, it is considered that it would be prudent to leave this budget as it is in order to meet any issues which could arise as a result.

One other substantial risk whose impact is unknown at present is the fact that the local government pension scheme is changing to one which registers employees automatically (“auto enrollment”) and this could increase the cost of some services as more employees become members of the Pension Fund and the Council has to pay the employer’s contribution for them.

4 Schools

- 4.1 The Welsh Government note that they have protected the Local Government grant in order to ensure a lower reduction than other services in the budgets for schools and social services. [The presumption is probably that we would have seen an increase of less than 1% if they had not given us this protection].
- 4.2 Up to now, our response to this has been to continue to plan on the basis of what the Council would wish to do for schools and then measuring this against the Welsh Government's intention and consider whether any adjustments are necessary to conform with the promise.
- 4.3 This year this means we must ensure that schools get a cash increase of +2.08%. This starts to raise fundamental questions about how logical it is for the Council to continue to fulfil the Welsh Government's wishes whilst having to make savings in other services to pay for it. We do not know of course what the effect of not conforming to the wish would be in terms of the response of either the Welsh Government or the schools.
- 4.4 However, the most recent figures show that we should be able to meet this requirement this year by ensuring that the resource goes towards addressing some of the problems which we would have had to address in any case (thus reducing the need to call on bids from the Council's corporate funds) (see paragraph 3.12(b) above) and ensuring that we devolve to the schools the contingency budget element for salaries referred to in 3.3 above, emphasising that it is not available for any other purpose permanently.
- 4.5 Therefore, differently from other services schools will not face savings in 2013/14 for the second year running, except the usual adjustments relating to changes in pupil numbers, with some schools benefiting and others losing.
- 4.6 In addition to this, all the primary schools that do not receive a safety net will benefit from the savings that have arisen from the primary education restructuring in 2013/14 as £200,000 is re-allocated to them.
- 4.7 Every year when preparing the budget we undertake work to consider whether our investment in schools is adequate.
- 4.8 In considering what level of investment is adequate, it needs to be borne in mind that population sparsity and deprivation are the two factors which drive the need to spend more per pupil to obtain the same outcome. On the basis that Gwynedd is the 3rd most sparsely populated county, and about 18th (depending on the exact measure) in

terms of deprivation, we would expect our comparative expenditure to be somewhere within this range.

- 4.9 Our research for the primary sector shows that Gwynedd is the 3rd highest spender in Wales with the 4th best pupil:teacher ratio, which shows that we are at the top end of the range.
- 4.10 Of course this average situation masks substantial variations between individual schools and our efforts should be concentrated on better use of the funding that is already available.
- 4.11 In the secondary sector, Gwynedd is the 8th highest in Wales based on comparative expenditure. Even so, the pupil:teacher ratio shows it is the 2nd best across Wales.
- 4.12 Even though it appears that secondary sector funding is within the expected range, it seems to be slipping downwards a little and it is considered that there is a need to keep an eye on the situation. Since there are developments in train (e.g. inclusion strategy funding) which should improve our comparative position there will be a need to revisit the Secondary situation in preparing the 2014/15 budget in the light of the comparative information which will be available next year.
- 4.13 With regard to special schools, the deficiencies in the process of collecting comparable financial information in this area makes any comparison worthless. In view of this, the Council has commissioned a report on the comparable position and that report is almost completed. It will suggest that there is a case for investing a little more in this area. This can be met through the additional resource noted in paragraph 3.12 (b) above.

5 Summary of the position for 2013/14

- 5.1 From the above it is therefore apparent that the Council's expenditure requirements for 2013/14 are £235.83m (increase of 2%) and we will receive a grant of £181.63m from the Welsh Government (increase of 1%).
- 5.2 In addition to this, without any increase in Council Tax it is estimated that £50.51m will be produced from the Council Tax in 2013/14 (a reduction from the £51.3m produced this year - see paragraph 3.9 above) therefore leaving a deficit of £3.69m.

6 FOUR YEAR FINANCIAL STRATEGY 2013/14 - 2016/17

- 6.1 As noted in part 1 above creating a budget on the basis of one year at a time is not a very responsible way of operating and there is always a need to be aware of what is on the horizon when establishing the

budget. This has been done within Gwynedd Council for some years now and it has paid dividends since we have coherent plans to deal with the choppy financial waters we are faced with.

- 6.2 In order to stay on this course, in addition to establishing the budget for 2013/14, an effort has also been made to project the financial position for the following three years so that we are able to place the position for 2013/14 in its wider context.
- 6.3 The assumptions used in the strategy for the next four years will be less cautious than those used in the previous strategy and this is in order to ensure that we do not over-react to the situation (and through that implement unnecessary cuts). It also gives a realistic scenario which has a reasonable hope of being achieved. Details of the assumptions used are given in Appendix 2.
- 6.4 The figure which is most uncertain is the grant figure which we will receive from the Welsh Government from 2015/16 onwards. Since this grant represents about 80% of the Council's income, this figure is obviously crucial to the projections. However we know from the Chancellor's statements and statements made by Ministers in the Welsh Government that it will not be good news for local government in Wales.
- 6.5 In addition, as we move further into the future there is more uncertainty surrounding all the figures and therefore, we have divided the 4 year strategy into two parts as noted below, with the first two years more certain and the final two years a target for planning purposes.
- 6.6 The table below shows the results of the projections made, and the savings that have already been planned and realised.

Table 3
Financial planning projections for the 4 years **2013/14 - 2016/17**

| £M | 2013/14 | 2014/15 | 2015/16 | 2016/17 | Total |
|-----------------------------------|--------------|------------|------------|------------|-------------|
| Additional spending needs | 17.2 | 7.0 | 9.4 | 9.0 | 42.6 |
| Grant loss (increase) | (13.6) | (0.5) | 2.7 | 1.4 | (10.00) |
| Council Tax (*) | (1.7) | (1.8) | (2.3) | (2.0) | (7.8) |
| Planned Deficit | 1.9 | 4.7 | 9.8 | 8.4 | 24.8 |
| £16m Plans | (0.9) | (0.8) | (0.3) | | (2.0) |
| Income | (0.1) | | | | (0.1) |
| 1% Efficiencies | (1.3) | (1.8) | (0.1) | | (3.2) |
| Corporate Efficiencies | (1.4) | (2.0) | | | (3.4) |
| To be discovered through - | (1.7) | 0.1 | 9.3 | 8.4 | 16.1 |
| Further Efficiencies | | | (6.4) (*) | | (6.4) |
| Reducing demand | | | (5.0) | | (5.0) |
| Cuts (balancing figure) | | | (4.7) | | (4.7) |

(*) based on an average yearly increase of 3.5%

- 6.7 It is seen that we are projecting an assumed financial gap over the 4 years of around £25m and presuming an average Council Tax increase of 3.5% per year. It is a matter for the Council to decide on the Council Tax increase in each year and the increase for 2013/14 will be returned to in part 9 of the report. An increase of 3.5% is assumed in the above projection in order to show the substantial gap which remains even after such an increase. Should the Council wish to see a higher or a lower increase then this will obviously impact upon the cuts figure noted.
- 6.8 The scenario can be split into two parts -namely the first two years and the last two years and there are different features and considerations for both parts.
- 6.9 With regards to the period 2013/14 - 2014/15, even though there is still an element of uncertainty, we have more confidence in the figures on which the scenario is based, since we have already been working on the savings plans for some time. There is reasonable certainty that we should be able to achieve the situation noted in the table, thereby providing £1.6m already towards the gap which we will be faced with in 2015/16 and 2016/17.
- 6.10 The savings noted are continuing to reach the level of savings planned for in the strategy drawn up two years ago with the exception of two schemes noted below. Nonetheless, some schemes have had to be re-profiled to reflect the fact that it will take more time than originally anticipated to achieve them.
- 6.11 The two schemes that will not now realise the sums originally planned are -

- **Scheme to reduce support for members** – in the original proposals the intention was to save £54,000 by reducing support for members. However at its 11 September meeting, in considering the support required for the Council's elected members the Democratic Services Committee decided that this saving could not be achieved if appropriate support is to be provided for members, and asked the Cabinet Member for Resources to adjust the financial strategy to delete this saving.
 - **Redesigning the residential care service** – since the comparative cost of providing the service in the private sector and the public sector has narrowed it will not be possible to achieve as much savings as originally envisaged from this scheme and the saving will reduce from £838,000 to £601,000.
- 6.12 For the following period however, namely 2015/16 – 2016/17, there is much greater uncertainty about the figures underlying the calculation, and to some extent it is impossible to say what is the true amount of the total saving we will eventually need – it could be higher or lower than that noted. *What is certain is that it will be a substantial sum.*
- 6.13 On the planning assumption that there will be a need to find around £16m in the last two years therefore, it is envisaged that we will find such a financial gap through the following means –
- Find more efficiency savings;
 - Be proactive to reduce the demand for Council services;
(The two above options will continue to achieve outcomes for Gwynedd's citizens)
 - Reduce costs by not providing some services (cuts).
- 6.14 The final answer will be a combination of the above but if we intend to have £16m of savings ready for the final two years we need to sow the seeds now.
- 6.15 What is obvious is that we have to ensure that we have maximised the sums found from efficiency savings and then moving on to demand management : then falling back on service cuts as a last resort. This is the way to act if we are serious about ensuring that we have the least possible effect of Gwynedd's people.
- 6.16 Cuts are therefore the figure we will have to resort to if we are unable to find savings from other sources. We should be proud of the fact that the Council's planning processes mean that we do not yet have to resort to service cuts - a position not all authorities enjoy.

- 6.17 We will need a simple process to manage the work of finding further efficiency savings and demand management and the Cabinet will give this issue further consideration in the near future.
- 6.18 We will also need an inclusive process for delivery where any service cuts should fall if we need them, and the Cabinet will also give consideration to such a process in the near future.

7 Capital

- 7.1 Whilst council's revenue budgets face restrictions, the capital budgets are also under pressure with the support given by the Welsh Government for meeting the costs of borrowing in the settlement continually reducing.
- 7.2 In 2010/11 we received support that allowed us to borrow £9.867m for capital spending every year and the Council's Asset Management Plan was based on this figure.
- 7.3 This figure was reduced to £7.891m for 2011/12, - a loss of £1.976m or a little over 20% and it reduced further in 2012/13 to £7.321m (a further reduction of over 7%).
- 7.4 This figure will reduce again in 2013/14 to £6.709m (a further reduction of over 8%). Therefore since 2010/11 the provision given to us to finance capital investment has been reduced by nearly a third in addition to the revenue restrictions.
- 7.5 Last year the Council prepared a capital programme for the three years 2012/13; 2013/14; a 2014/15, and this programme was based on the contents of the Asset Strategy.
- 7.6 The programme that was recommended by the Council last year is noted in Appendix 3 with the addition of a proposed programme for 2015/16.
- 7.7 Specific attention should be given to the following changes to the profiles agreed last year for 2013/14 and 2014/15 which are highlighted in grey in the Appendix
- 7.8 Even though the planned spending total over the period of the Asset Strategy has not changed it was necessary to vary the expenditure profiles under the following headings in order to conform better with their need to spend and the work priorities within the service.
- Property Maintenance
 - Fire and Asbestos work
 - Safety Fences on Roads

- Carbon Management Plan
- EDRMS

- 7.9 The profile for School Restructuring reflects the most recent profile for the spending plans of over £36m that were approved by the Welsh Government. We have also had to include a sum of £1.25m to finance elements of work on the 9 schemes in the programme which will not be eligible for Welsh Government grant as they only fund schemes once they have reached a particular stage of development. Section 7.12 below notes how this can be financed.
- 7.10 With regard to the expenditure on road maintenance the amount was increased from last year's figure of £3.465m to £4.111m as the grant we will receive will allow us to borrow more than was previously forecast.
- 7.11 The Highways and Municipal services have also noted that experience has started to show that the costs of creating cells and capping those cells at Ffridd Rasmus are higher than planned and a request was made to acknowledge this higher cost in the capital programme. This would mean a higher cost of £315,000 over the period of the Asset Strategy. Since we do not really have much choice, it is recommended that we approve this. Work is currently ongoing to ascertain whether or not the business plan for creating more cells rather than transferring waste to other sites has now changed and the recommendations on this issue will be presented to the cabinet in due course.
- 7.12 Against this issue however, a review of the vehicle renewal programme in the light of experience has shown that we can keep vehicles longer than anticipated and this changes the vehicle renewals profile (reducing the cost over the life of the Strategy by £1.2m). This sum should be sufficient to cover the additions in 7.9 and 7.11 above.
- 7.13 The figure noted under " To be allocated" for 2013/14 represents the amount required to meet the capital bids received for schemes that were not foreseeable when preparing the Asset Strategy.

7.14 We will fund the programme as follows -

Table 4
Funding capital programme 2013/14 - 2015/16

| £'000 | 2013/14 | 2014/15 | 2015/16 |
|-------------------------------------|---------------|---------------|---------------|
| Capital Requirements | 20,839 | 15,748 | 20,346 |
| To be financed through | | | |
| Capital provision in the settlement | 6,709 | 6,709 | 6,709 |
| School grants | 5,471 | 1,775 | 4,781 |
| Capital receipts | 790 | 2,096 | 680 |
| Contribution from revenue | 3,758 | 1,057 | 3,494 |
| Prudential borrowing (*) | 4,111 | 4,111 | 4,682 |
| Total to be financed | 20,839 | 15,748 | 20,346 |

7.15 One aspect of the funding proposals is the level of capital spending which is being undertaken compared to the specific support we receive in the settlement. This shows the benefit of having a long term plan through the Asset Strategy that allows us to prepare a long term programme and to try and maximise the benefit that can be obtained from capital investment that can be made from available resources.

8 BALANCES

8.1 It is forecast that we will have general balances of about £8m at the end of this financial year, representing about 2.2% of the Council's gross revenue expenditure.

8.2 Due to the tempestuous circumstances we are facing over the years ahead, it is appropriate to retain reserves in order to deal with any problems that could arise.

8.3 Nothing has happened in the meantime to change this opinion.

8.4 However we also have a number of specific reserves that were established by the Council and these are also available to support the Council's expenditure requirements. There are of course several of these and the Head of Finance includes a list of them in the accounts every year.

8.5 In order to ensure that all the Council's members are aware of them, copies of the relevant pages of the accounts are attached as Appendix 4.

8.6 Of course it is important to continually review the level of these reserves and the Head of Finance does this, but he is presently

conducting a specific investigation into these reserves to assess whether the level of some of them can be reduced so that any released resource can be used for the financial strategy.

- 8.7 The plan would be to use any released amounts in order to avoid implementing cuts at the appropriate time within the finance cycle. The timing of such use is key and it is currently anticipated that this will not arise until 2015/16 at the earliest. We will need to re-visit this issue when reviewing the Strategy in future.

9 COUNCIL TAX

- 9.1 The key decision that needs to be made in the light of the above considerations is to establish the exact level of Council Tax increase for 2013/14 in order to recommend it to the Council.
- 9.2 In the above assumptions, a figure of 3.5% was used in order to show the effect on the strategy but it is a matter for the Council to decide what the actual increase should be.
- 9.3 Of course the key to all of this is to get a balance between the need to spend on services for the most vulnerable in our society and the proposed increase in Council Tax for the residents of Gwynedd.
- 9.4 3.5% would produce an income of £1.768m and this would be equivalent to a Council Tax increase of £36.16 or a little under 70p per week for a property in Band D. [The tax charged by the community councils and the Police Authority would of course be in addition to this]. A little over 19% of houses in Gwynedd receive some element of benefit towards their Council Tax, and 60% of properties in Gwynedd are in Bands lower than D.
- 9.5 Every 0.1% lower than the 3.5% would increase the financial gap which we would need to fill by £50,510 (and therefore 0.5% less would mean increasing the financial gap £252,560 and reducing it by 1% would increase the financial gap by £505,120). The figures would be exactly the same for any increase.
- 9.6 We should also bear in mind that any increase lower than 3.5% over the next 4 years will increase the service cuts we will have to implement.

- 9.7 The increase seen in Gwynedd's Council Tax and the average increase seen across Wales since 2008/9 is given below.

| Year | Gwynedd | Wales |
|--------------------|----------------|--------------|
| Total 08-13 | 20.5% | 17.4% |
| 2012/13 | 3.5% | 1.9% |
| 2011/12 | 3.9% | 3.1% |
| 2010/11 | 3.9% | 3.7% |
| 2009/10 | 3.9% | 3.9% |
| 2008/9 | 3.8% | 3.7% |

- 9.8 We do not yet know what the actual average increase will be across Wales in 2013/14 but the latest information I have is that most of the increases will be around 3% with one or two indicating that they intend going much lower and one or two indicating an intention to go much higher.
- 9.9 Of course the choice between maintaining services and taxation is a difficult one and it is a matter for the members to consider the appropriate balance and arrive at a decision that they feel is appropriate.

10 **EQUALITY IMPACT ASSESSMENT**

- 10.1 The budget outlined above endeavours to continue to achieve appropriate outcomes for all our citizens, but as the increase in our income is insufficient to meet inflation costs even, we must find savings.
- 10.2 The greatest risk in terms of having a disproportionate effect upon those with protected characteristics is in the area of savings. The Equality and Human Rights Commission have already identified this risk and have reminded local authorities of their duty to assess the effect of their financial decisions.
- 10.3 We will continue to develop our arrangements for assessing the equality impact of our financial decisions in conjunction with the Equality and Human Rights Commission and other local authorities, by sharing good practice and identifying effective steps which can be taken in future.
- 10.4 Our aim is to ensure that our financial decisions conform with the requirements of the Equality legislation, namely :
- Get rid of illegal discrimination, harassment and victimisation and any other conduct prohibited by the Act.

- Promote equality of opportunity between people who share a relevant protected characteristic and those who do not.
- Encourage good relations between those who share a protected characteristic and those who do not.

In making our assessment we will try and identify how to make the best of any opportunity to improve equality in addition to trying to avoid or mitigate any negative effects to the best of our ability.

- 10.5 In planning our budgets consideration is given to equality on each level, by utilising data and evidence in relation to demography and trends at a strategic level, and in the same way (but more specifically) in coming to decisions on individual savings schemes. Data and evidence has already been collected for our Equality Strategic Plan, and we will continue to build upon this information by analysing new data (such as the 2011 Census results), monitoring our services and engagement.
- 10.6 We have clear processes for finding any savings we may need which includes making a full assessment of savings which could have a detrimental impact in equality terms. We analyse each individual savings scheme noting if we consider that the department needs to conduct an impact assessment when developing the scheme. In accordance with the Equality and Human Rights Commission's request we will produce an annual report on this process and publish it on our website.
- 10.7 However the budget does not just try and meet inflation costs, it also tries to ensure that unavoidable financial pressures being placed on services due for example to greater demands being placed upon them due to increasing numbers of clients and so on.
- 10.8 Each service has the right to submit a request for additional funding if it considers that it is required to ensure that the service continues and these sums can be seen under the "Service Pressures" heading. The sums seen there are also a recognition that we must ensure sufficient funding to ensure that our financial arrangements do not have a detrimental impact on the level of service provided.
- 10.9 Full details are available in the Head of Strategy and Improvement's report and of the £1.2m provided under this heading, £800,000 of this amount is allocated to the area of social care in addition to the £171,000 demography funding provided in order to recognise the increasing number of those with learning disabilities requiring care.

11 CONCLUSIONS

- 11.1 This report sets out the factors that should be considered when establishing the budget for 2013/14 and a proposed strategy to cope with the financial position facing the Council over the next 4 years.
- 11.2 It is proposed that we need to find a revenue need to spend of £235.83m in 2013/14 and after receiving Welsh Government Grant of £181.63m and taking into account that the assumptions made when setting the taxbase mean that our Council Tax income would have reduced by £51.3m to £50.51m, this will leave a gap of £3.69m to be found in the year.
- 11.3 Bearing in mind the difficult circumstances we will be facing over the next 4 years it is therefore recommended that we should increase Council Tax by 3.5% in order to protect services with the remaining £1.9m coming from the savings programme.
- 11.4 This will mean setting a net budget of £233,912,560.
- 11.5 An analysis of the budget by service is given in Appendix 1.
- 11.6 The budget noted results in schools getting a budget increase of 2.08% (resulting in Education spending overall increasing by 1.75%) and a 0.4% increase in Social Services spending. Similarly, other Council services receive an increase of 0.4% (but this is before allocating £1.7m of corporate efficiency savings which will also fall on services other than schools).
- 11.7 In relation to the position for the next 4 years, that we should plan to meet the projected £32m gap by planning to increase Council Tax by an average 3.5% a year which will generate £8m on top of the £8.7m of savings which have already been planned.
- 11.8 It is the intention for the remainder to be found by setting a further target for efficiency savings of £6.4m and reducing demand for council services by being proactive to cut off demand for those services with a view to finding a further £5m. Any sum remaining to be found would then have to come from service cuts.
- 11.9 With regards to the savings programme that we have already, it is noted that the savings on reducing support to councillors will not be achievable and the plan for redesigning residential care will not generate as much as originally expected.
- 11.10 Recommend a capital budget of £20,839m for 2013/14; £15,748m for 2014/15 and £20,346m for 2015/16.

Appendix 1

Budgets by service 2013/14

| | Base Budget 2012/13 | Transfers into the settlement | Inflation | Salary increments & pensions | Precepts Interest on borrowing costs and demography | Adjustments to income budgets | Various | Other adjustments | Bids | Savings | 2013/14 Budget |
|---|---------------------------|-------------------------------------|--------------|------------------------------------|--|--|----------------|----------------------|--------------|----------------|-------------------|
| Services | | | | | | | | | | | |
| Leadership Group | 774 | 0 | 8 | 2 | 0 | 0 | (12) | 0 | 0 | (4) | 768 |
| Strategy and Improvement | 2,619 | 0 | 28 | 18 | 0 | 0 | (34) | 0 | 0 | (40) | 2,591 |
| Finance | 3,944 | 0 | 66 | 28 | 0 | 0 | (93) | (52) | 40 | (86) | 3,847 |
| Democracy and Legal | 3,348 | 0 | 32 | 11 | 0 | 0 | (22) | 46 | 34 | (3) | 3,446 |
| Customer Care | 6,721 | 16 | 109 | 34 | 0 | 0 | (141) | 146 | 176 | (71) | 6,990 |
| Human Resources | 3,001 | 0 | 31 | 27 | 0 | 0 | (45) | 0 | 15 | (48) | 2,981 |
| Highways and Municipal | 22,130 | 0 | 484 | 69 | 0 | 0 | (367) | (3) | 258 | (566) | 22,005 |
| Regulatory (Planning, Transport and PP) | 6,866 | 0 | 130 | 22 | 0 | 120 | (131) | (23) | 196 | (287) | 6,893 |
| Gwynedd Consultancy | 398 | 0 | 4 | 25 | 0 | 250 | (6) | (69) | 0 | 0 | 602 |
| Central education | 13,090 | 1,711 | 134 | 19 | 0 | 0 | 97 | (160) | 277 | (433) | 14,735 |
| Schools budget | 67,967 | 0 | 710 | 85 | 19 | 0 | 40 | 146 | 516 | 0 | 69,483 |
| Economy and Community | 3,560 | 0 | 28 | 11 | 0 | 144 | (83) | (100) | 0 | (31) | 3,529 |
| Social Services | 53,905 | 1,362 | 433 | 59 | 171 | 0 | (704) | (49) | 887 | (601) | 55,463 |
| Housing | 1,552 | 0 | 21 | 0 | 0 | 0 | (23) | (18) | 23 | 0 | 1,555 |
| Leisure and Provider | 1,715 | 0 | 429 | 81 | 0 | 0 | (553) | (102) | 73 | 0 | 1,643 |
| Service Totals | 191,590 | 3,089 | 2,647 | 491 | 190 | 514 | (2,077) | (238) | 2,495 | (2,170) | 196,531 |
| Capital and corporate items | 27,817 | 8,634 | 243 | 0 | (296) | 88 | 727 | 238 | (394) | 248 | 37,305 |
| GROSS TOTAL = | 219,407 | 11,723 | 2,890 | 491 | (106) | 602 | (1,350) | 0 | 2,101 | (1,922) | 233,836 |
| | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Balances and Earmarked reserves | (45) | 0 | 0 | 0 | 0 | 0 | 164 | 0 | (43) | 0 | 76 |
| NET TOTAL | 219,362 | 11,723 | 2,890 | 491 | (106) | 602 | (1,186) | 0 | 2,058 | (1,922) | 233,912 |

APPENDIX 2

4 Year Projections 2013/14 - 2016/17

| £m | 2013/14 | 2014/15 | 2015/16 | 2016/17 | Total |
|-----------------------------------|------------|------------|-------------|-------------|-------------|
| Additions to the Budget | | | | | |
| Salaries Inflation | 1.3 | 1.6 | 3.3 | 3.3 | |
| Other Inflation | 1.5 | 1.6 | 1.5 | 1.5 | |
| Employment Costs | 0.5 | 0.7 | 0.7 | 0.7 | |
| Precepts | - | 0.2 | 0.2 | 0.2 | |
| Borrowing Costs | (0.4) | (0.3) | 0.5 | (0.2) | |
| Interest | 0.2 | - | - | - | |
| Demography | 0.2 | 1.0 | 0.4 | 0.3 | |
| Pressure on Services | 1.7 | 2.2 | 3.0 | 3.2 | |
| Various | 11.9 | - | - | - | |
| Total additions | 16.9 | 7.0 | 9.4 | 9.0 | 42.3 |
| Less increase in Government Grant | 13.6 | 0.5 | (2.7) | (1.4) | (10.0) |
| Total gap after Grant | 3.3 | 6.5 | 12.1 | 10.4 | 32.3 |

Basis of Projections 2013/14 - 2016/17

| | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|-------------------------------|--|---------|---------|---------|
| Additions to the Budget | | | | |
| Salary Inflation (%) | 1.0 | 1.0 | 2.0 | 2.0 |
| Other Inflation (%) | 1.75 | 2.3 | 2.0 | 2.0 |
| Pensions Costs (%) | 0.5 | 0.5 | 0.5 | 0.5 |
| Precepts | Past experience | | | |
| Borrowing Costs | True projections | | | |
| Interest | Projections based on no change in interest rates | | | |
| Demography | True projections | | | |
| Pressure on services | Projections based on past experience and information on specific matters | | | |
| Government Grant increase (%) | 1.0 | 0.3 | (1.5) | (0.75) |

APPENDIX 3

CAPITAL PROGRAMME FOR 2013/14 - 2015/16

| £'000 | 2013/14 | 2014/15 | 2015/16 |
|--|---------------|---------------|---------------|
| Building Maintenance (dealing with the backlog and avoiding further deterioration) | 5,216 | 4,501 | 2,096 |
| Fire and Asbestos Work | 743 | 626 | |
| Schools Organisation | 5,996 | 2,379 | 12,389 |
| Replace classes that have come to the end of their life | | | 1,338 |
| Remove 6 temporary classes Brynrefail | 550 | | |
| Road Maintenance(Borrowing Plan) | 4,111 | 4,111 | |
| Street Lights | 50 | 50 | 50 |
| Safety Fences on roads | | 14 | 134 |
| Dealing with water on roads | 100 | 100 | 100 |
| Playing Fields | 35 | 35 | 35 |
| Council's Waste Strategy | 635 | 430 | 550 |
| Renewing Vehicles | 0 | 186 | 407 |
| Transportation feasibility schemes | 100 | 100 | 100 |
| Cycle routes | 20 | 20 | 20 |
| Installation of medic baths and sluices | 100 | | |
| Renew Information Technology | 348 | 592 | 501 |
| Electronic system for keeping documents and records | - | 328 | 244 |
| Housing Grants | 2,000 | 2,000 | 2000 |
| Carbon Management | 400 | - | - |
| To be allocated | 435 | 276 | 382 |
| Total | 20,839 | 15,748 | 20,346 |

Extract from Final Accounts – specific reserves

The note below reveals the amounts from the General Fund in earmarked reserves in order to provide finance for future spending plans, and the amounts that were transferred back from the earmarked reserves to meet the expenditure of the General Fund in 2011/12.

Earmarked Reserves

| 2011-12 | Balance 31 March 2012 £'000 |
|---|---|
| Renewals Reserves | 1,564 |
| Capital Reserves | 15,148 |
| Insurance Reserves | 3,497 |
| Services Fund | 6,627 |
| Objective 1 Fund | 273 |
| Convergence Programme Fund | 1,515 |
| Development Reserves | 312 |
| Redundancy Costs to Realise Savings Reserve | 2,107 |
| Improving the Council Fund | 0 |
| Central Training | 493 |
| Communication Centre Reserve | 524 |
| Schools Service Reserves | 944 |
| Economy and Community Reserves | 285 |
| Highways and Municipal Reserves | 2,239 |
| Waste Development Reserve | 566 |
| Gwynedd Consultancy Reserve | 185 |
| Regulatory Reserves | 804 |
| Major Maintenance Work on County Roads Fund | 261 |
| Care - Other Reserves | 103 |
| Business Process Transformation Fund | 244 |
| Invest to Save | 1,485 |
| Invest to Save - Carbon Reduction Plan | 2,098 |
| Transforming Fund | 4,992 |
| Committed Revenue Grants Fund | 214 |
| Capital Reserve to Realise Savings | 209 |
| Contracts Tendering Fund | 295 |
| Housing Water and Sewerage Services Fund | 1,458 |
| Housing Environmental Warranty | 480 |
| Savings Programme Reserve | 918 |
| Information Technology Reserves | 374 |
| Various Other Reserves | 839 |
| Total | 51,053 |

Details are given below of the Council's main specific reserves.

- (i) The Renewals Reserve is used by the Provider and Leisure Services, Highways and Municipal, Economy and Community and the Print Room to replace vehicles and equipment as required.
- (ii) The Capital Reserve represents resources already committed to finance part of the Council's Capital Programme.
- (iii) Gwynedd Council does not insure all risks with external insurers but instead it has established an internal reserve to meet those uninsured risks. The balance on the Insurance Reserve also includes an element relating to the relevant insurance requirements of the former Gwynedd County Council (pre 1996).
- (iv) The Services Fund represents the element of slippages and underspend that service departments have the right to carry forward for use in the subsequent financial year, other relevant specific budgets and one-off budgets that extend over more than one year.
- (v) Objective 1 - Fund was created for additional capital or revenue costs which arise from the requirements to develop plans for Objective 1.
- (vi) Convergence Programme Fund – amounts reserved for the Councils' proportional contribution in relation to capital and revenue plans under the Convergence Programme.
- (vii) The Development Reserve relates to specific projects already determined by the Council such as Affordable Housing and E-Government.
- (viii) Redundancy Costs to Realise Savings Reserve – provision for financing redundancy costs to realise budgetary savings.
- (ix) Improving the Council Fund – a sum set aside to support schemes that could achieve efficiency improvements, improve service performance, and to strengthen corporate capacity to support change management and improvement – subsequently transferred to and part of the Invest to Save Fund.
- (x) Central Training – relates to the management training development programme.
- (xi) Communication Centre Reserve – sums set-aside towards developing the Communication Centre.
- (xii) Schools Service Reserves – includes sums set aside to respond to related financial problems with 'Integration' requirements, changeable demands in 'Out of County – Special Educational Needs', 'Supporting Schools' and the 'Schools Loans Scheme'.
- (xiii) The Economy and Community Reserves include a number of balances relating to schemes operating on a partnership basis mainly, where the scheme balances must be accounted for separately.
- (xiv) The Highways and Municipal Reserves include mostly sums set aside to protect situations of uneven expenditure – 'equalisation accounts' – and likely requirements from contracts.

- (xv) The Waste Development Reserve is for relevant commitments and developments in the waste field including our commitment to the North Wales Waste Partnership.
- (xvi) Gwynedd Consultancy Reserves – includes amounts set aside to protect against situations of uneven expenditure due to coastal protection works and possible employment requirements resulting from changes in the Consultancy Service’s work programme.
- (xvii) Regulatory Reserves – include a number of balances relating to schemes operating mainly on a partnership basis, and where the scheme balances must be accounted for separately, together with specific requirements relating to the Unitary Development Plan.
- (xviii) Major Maintenance Work on County Roads Fund – to support the cost of large maintenance work on county roads.
- (xix) Other Care Reserves – includes amounts set aside to protect against possible situations of uneven expenditure due to contract requirements.
- (xx) Business Process Transformation Fund – A one-off fund to aid the business transformation process to realise savings for the Council.
- (xxi) Invest to Save Fund – Provision for the investment in various plans to realise permanent financial savings, and further includes the requirements and resources of the Improving the Council Fund.
- (xxii) Invest to Save Fund – Carbon Reduction Plan – Partly funding the Carbon Reduction Plan programme of works to reduce carbon emissions whilst generating monetary revenue savings.
- (xxiii) Transforming Fund – Provision for the change in the Council’s internal procedures to be more effective and more efficient.
- (xxiv) Committed Revenue Grants Fund – includes revenue grants received and committed for future use.
- (xxv) Capital Reserve to realise savings – Provision to support capital plans that will realise permanent financial revenue savings.
- (xxvi) Contracts Tendering Fund – in response to uneven spending situations as a result of the tendering process for transport contracts.
- (xxvii) Housing Water and Sewerage Services Fund – amounts reserved for requirements relating to sewerage procedures, water piping and sewage treatment work on old Council Housing Estates, which were not adopted by Welsh Water.
- (xxviii) Housing Environmental Warranty – reserved for possible implications as a result of giving environmental warranties to Cartrefi Cymunedol Gwynedd, in connection with specific and special circumstances that relate to environmental plans on the land of old Council Housing Estates.
- (xxix) Savings Programme Reserve – strategic financing provision to assist and give the Council some flexibility with regards to the essential savings programme in the future.
- (xxx) Information Technology Reserve – renewals fund in order to respond to future uneven expenditure patterns.

(xxxi) Various Other Reserves – includes amounts set aside to meet a variety of other contingent liabilities.

FUNVAL