

REPORT TO COUNCIL

5 December 2013

Cabinet Member: Cllr Peredur Jenkins

Subject: Financial Strategy 2014/15 – 2017/18

Contact Officer: Dilwyn Williams, Corporate Director

The decision sought/purpose of the report

To note the position in relation to the substantial grant reduction that will affect the Council in 2014/15 and to approve the high level strategy to deal with the new financial scenario we are facing.

Opinion of local member

Not a local matter

Introduction

1. I reported to the Cabinet in July that Ministers within Welsh Government had suggested that they intended to change direction when considering expenditure priorities within Welsh Government and stating that local authorities should plan ahead on the basis of “English style” financial reductions.
2. The draft settlement for local authorities has now been published and it is possible for us to plan on the basis of more solid information.
3. Back in February, the Council formulated a four year financial strategy based on the information given to us at that time regarding the likely settlement from Welsh Government as follows:-

£m	2013/14	2014/15	2015/16	2016/17	Total
Anticipated deficit	1.9	4.7	9.8	8.4	24.8
Savings already found	3.6	4.6	0.5	-	8.7
Further savings required	(1.7)	0.1	9.3	8.4	16.1

4. It can be seen from the above that we forecast that the planned savings we had found for 2013/14 and 2014/15 were going to be more than sufficient to meet the deficit for those years but that further savings would need to be found for 2015/16 and 2016/17.

5. This was based on the Welsh Government statement in February this year that the local government grant would increase 0.8% in 2014/15. On this basis assumptions were made that this would mean an increase of about £500,000 in grant for Gwynedd Council.
6. Now, the draft settlement suggests that local government grant will reduce 3.5% on average across Wales in 2014/15. However, the actual reduction is higher due to the way the Government has dealt with the Council Tax Reduction Scheme grant and the new money given to fund the borrowing regime for road improvement. Taking these two issues into account the true reduction across Wales is nearer to 4% and the reduction for Gwynedd is nearer - 4.7%. This equates to a grant reduction of £8.3m for Gwynedd Council.
7. This is very disheartening for a council like us who have created a prudent and responsible plan based on the information that it was given, and it completely destroys any attempt at having responsible medium term financial planning that is being urged by the District Auditor.
8. Having said that, we must now try and deal with the situation, and due to the financial planning already undertaken by the Council, we will probably be in a better position to deal with these substantial changes compared with some other councils.
9. It appears that we have two main options in order to deal with this situation, namely -
 - Take emergency action to find more savings quickly (which will probably mean service cuts : as cuts are the quickest way to achieve savings); or
 - Consider whether there is a way to take advantage of the planning already undertaken by the Council to establish a balanced budget in 2014/15 without any substantial changes, so as to buy time to be prudent in establishing a new savings programme.
10. As I stated in my presentation to the Council in September, I have been consulting officers in order to see if the second option is practically possible.
11. By looking at the figures, it now appears that this could be done, and on this basis I therefore suggest the following strategy.

The Long term Strategy

12. The work of establishing the probable gap for the next four years is ongoing, and by December we will have a planning which we can use to underpin our preparations for the next four years.
13. Work is also ongoing to establish the opportunities available to the various services to find savings by keeping the effect on the outcomes for the people of Gwynedd to the minimum possible (through efficiency savings; demand management measures and low impact cuts).
14. Based on these opportunities it will then be possible to establish differential savings targets for each service to be presented to a series of seminars for all members in January/February and then to the Cabinet and the Council in March.
15. Services would then produce their own plans to deliver the targets set by the Council and present those plans to a series of seminars and the scrutiny process in the same way that was successfully done with the last Council in order to establish the present savings programme.
16. These savings would then start to be implemented around the end of 2014/15 onwards.
17. Such a system would allow us to be considered in our approach and to give adequate time to assess and scrutinise the proposals in order to ensure that we make the correct decisions in relation to the effect which they will have on the people of Gwynedd. It would also allow us to be much more inclusive by engaging all the members in the process.

2014/15 Budget

18. Of course, in order to buy time to do this, a way must be found to deal with the substantial reduction in grant in 2014/15.
19. The following high level strategy is therefore recommended.
20. Our initial analysis shows that there will be pressure on the Council's expenditure in 2014/15 due to inflation, an increase in the number of elderly, pressures on budgets etc around £5.0m.
21. By deleting the provision we have for salary inflation over 1% together with the permanent budget we have set aside for the Council's Strategic Plan, and by taking some other tactical actions, we anticipate that this figure can be reduced to around £2.0m.

22. It can be seen that if the Government for Wales had kept to its original spending plans, we would have been able to cope easily with the situation since this would be the size of the funding gap for us in 2014/15 and the plan we had established would be more than sufficient to cope with the situation.
23. However, since our loss of grant equates to £8.3m this increases the gap to £10.3m.
24. Work is ongoing on establishing the detailed budget which will be reported in January but we currently anticipate that savings of £5.9m can be delivered in 2014/15.
25. By increasing the Council Tax collection rate back to 99% and by using an element of balances (say about £1.5m), I am quite confident that we can create a balanced budget in 2014/15.
26. Whilst there is considerable discussion across Wales at the moment about how to calculate the schools education funding commitment of 0.9% made by the Welsh Government, this strategy conforms with our understanding of the funding commitment's requirements.
27. The whole issue was considered by the Cabinet at its meeting on 26 November, and they commend this high level strategy to the Council in order to deal with the situation with which we are faced, namely -
 - that we establish a new savings programme for the 4 year period to come which is based on trying to have the least possible effect on the outcomes for the people of Gwynedd and to be implemented from around the end of 2014/15; and
 - that in order to buy the necessary time to enable us to plan a new considered and sensible programme of savings, that we use the remainder of our present savings programme along with several other steps including using an element of balances (say around £1.5m) to formulate a balanced budget in 2014/15.

Next steps

28. In undertaking this strategy we will have bought ourselves a little time but we are fortunate that we are in a position to do that. We must use that time wisely and be careful not to think that this strategy means we can sit back and take things easy. The process of creating a new programme in a considered and inclusive way will be challenging and trying to limit the effect on the people of Gwynedd to the least possible extent will be challenging to say the least.

29. If the Council agrees to the strategy, the financial details will be presented to the Cabinet at the end of January in order that they may publish their draft proposals for the Audit Committee to scrutinise before presenting their final suggestions to the Council in March.
30. As I noted above, I will also be arranging a series of seminars for members across the county in January/February to explain and discuss the details of the financial strategy before the Cabinet considers the final suggestions around the end of February.

Views of the Statutory Officers

Chief Executive:

The task of ensuring a balanced budget for next year and the following years (whilst maintaining quality services) is one of the most difficult tasks that the Council has ever faced. As a result, today's decisions must be made with a view to their longer term implications. To some extent, it is the Council's success in doing so in the past that has led to us being in a comparatively favourable position since we have savings plans already in place; this does enable us to meet the challenge to some extent. However, the challenge ahead is enormous and there will be very difficult decisions to be made over the coming years.

Monitoring Officer:

Nothing to add regarding propriety

Head of Finance:

When the Statutory Financial Officer prepares an opinion, and as members reach a decision on the use of balances in the next budget setting round, it is essential to consider and assess the risks facing the Council. I am preparing this opinion after considering the financial position, commitments and fundamental assumptions in the budget (the basis of the figures in paragraphs 18 – 25 of the report, such as inflation rates and interest, the change in the demand for services, estimates on the savings plans etc.)

As a result of an unprecedented challenging grant settlement from the Welsh Government in October and in the difficult current financial climate, there is no doubt that the Council will need to be prudent with its balances by 2015/16 and beyond (in order that it can meet unavoidable redundancy costs and any 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 solid financial strategy for the years ahead, with the promise from Cabinet members that they will keep to plans to ensure new savings are found in 2014, I support the steps recommended, including using a reasonable portion of balances (around £1.5m) in order to bridge the gap in 2014/15 and to allow the Council time to prepare a new appropriate savings programme.
