

REPORT TO COUNCIL
6 March 2014

Cabinet Member: Cllr Peredur Jenkins

Subject: 2014/15 – 2017/18 Financial Strategy

Contact Officer: Dilwyn Williams, Corporate Director

Decision sought

The Council's views on the proposals for dealing with the financial problems with which we are faced for the next 4 years namely –

1. In relation to the position over the next 4 years, we should find the £34m funding gap projected for the period by keeping all options open (including the possibility of raising the Council tax by more than 3.5% and finding savings from the schools budget) and that we should find the majority of the gap by maximising efficiency savings and demand management we can deliver.
 2. An inclusive system should be established in order to establish efficiency savings plans and prioritisation which needs to be made in order to establish where we should cut services.
 3. In the meantime advantage must be taken of any opportunity to deliver savings even if it means not waiting for the regime in question so as not to lose the opportunity.
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Introduction

4. 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.
5. 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.
6. Gwynedd Council's practices have been used as a good practice example in a national report on financial planning published recently by the Welsh Audit Office.
 7. The previous report presents the cabinet's recommendations for consideration by the Council in relation to the 2014/15 budget.
 8. In addition, in view of the difficult financial prospects ahead of us, and as we need to plan ahead for future years' budgets and propagate schemes early enough in order to be able to meet this financial challenge, the Cabinet also wishes to consult the Council on what needs to be done in order to face these medium term challenges.
 9. In addition to establishing a budget for 2014/15, an effort has also been made to project the financial situation for the following three years so that we set the 2014/15 position in it's wider context and plan how we are going to meet the challenges ahead.
 10. The strategy for the next 4 years gives a realistic picture of what could lie in store for us. Details of the projections used can be found in Appendix 1.
 11. The grant figure we will receive from the Welsh Government is the most uncertain figure from 2016/17 onwards. Taking this year's experience into account there is also some doubt as to whether we can rely on the figure given for 2015/16. Since the grant represents about 80% of the Council's income, obviously this figure is key to the projections. We know from the Chancellor's statement and the statements made by Welsh Government Ministers that it will not be good news for Local Government in Wales and an attempt has been made to estimate the level of this grant on the basis of the public sector spending figures that are in the official Westminster Government public spending reports.
 12. Also, as we go further into the future there is more uncertainty regarding all the figures and we have therefore divided the strategy into two parts as set out below, with the first two years being more certain and the last two years representing planning targets.
 13. The table below shows the results of the projections made, and notes the savings already planned or being delivered.

Table 1
Financial planning projections for the 4 years 2014/15 – 2017/18

£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

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

14. It can be seen that we are projecting a funding gap of around £50m over the period, but with an assumed council tax increase of 3.5% and savings already being found, this will leave around £34m to be found. £14m of this funding gap arises due to the assumptions relating to the Government grant we will receive and is extremely sensitive to that figure.
15. Whilst there is of course a possibility that this reduction could be less (which would result in the gap being less) there is also a possibility that the reduction could be higher and therefore I think it is realistic for us to use a planned figure of £34m for the period ahead.
16. The projection also assumes an average increase of 3.5% Council Tax every year. It's a matter for the Council to decide on the Council Tax increase every year but 3.5% is noted in the above projection in order to show the substantial gap that is left even after such an increase. If the Council wishes to see a higher or lower increase it will obviously affect the financial gap stated.
17. In order to underline the seriousness of a £34m gap we must be alive to the fact that if we protected the whole of the schools budget, this would mean a reduction of 27% in every other service within the Council. I would invite members to look at the budget book and to choose any service and consider how they could reduce 27% costs from every other service. It will be a very difficult task.
18. Therefore, on the basis that we will need to find about £34m over the next four years, and in order to consider all the implications, we must come to a conclusion on -

- The probable increase in Council Tax for the years ahead. Are we going to keep to our strategy of increasing the Council Tax 3.5% or are we going to increase it further in view of the implications of finding such a large funding gap on our services?
 - What element of this gap will we be asking schools to take on? With such a large gap it is unreasonable to consider that we can fully protect schools but we need to consider how much protection can be achieved.
 - What amount of further efficiency savings will be able to find and be proactive to reduce demand for Council Services;
 - Since any gap left after this will have to come from service cuts – how are we going to decide where these cuts fall.
19. What is obvious is that we have to ensure that we have maximised the sums obtained from efficiency savings and demand management activities and falling back on service cuts as a last resort. This is the way forward if we really want to ensure the least effect on the people of Gwynedd.
20. As the table below notes, even if we raised the Council Tax to 5% for the next four years, and we expected to get 6% from the schools budget, and assuming that we are able to discover £15m efficiency savings from reduced demand, this would continue to mean finding service cuts worth £9m.

Table 2
Projection of service cuts required in different scenarios

	Conservative efficiency	More ambitious efficiency	Leave all options open CT up to 5% Schools up to 6% Savings from the Commission
Council Tax	-	-	£2.5m
Schools	-	-	£4.3m
The Commission	-	-	£3.0m
Efficiencies	£15m	£20m	£15m
Cuts	£19m	£14m	£9.2m
	£34m	£34m	£34m

21. Taking a less optimistic attitude towards the Council Tax, the school budget and efficiency savings, it can be seen that the level of cuts would then increase to £19m which would be very difficult if not impossible to achieve considering the effect that this would have on the people of Gwynedd.
22. **It is therefore recommended** that all the options should be kept open until we see the effect and the implications of the decisions with which we will be faced to achieve savings. Working on any other basis will only place us in a position with which we may not be able to cope. This would mean working within the following framework -

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

23. Obviously whatever the final figures we achieve in the above equation, it will be necessary to try and maximise the sum that comes from efficiency savings and demand management.
24. We are currently considering all opportunities that are available to individual services in order to find further efficiency savings/demand management savings and these figures will be used as a basis for efficiency savings/demand management targets for the individual services to be approved in April.
25. Services will then be expected to establish schemes in order to achieve these targets and ensuring that the scrutiny process is part of the approvals process before they are presented to the Council Cabinet during 2014.
26. In achieving such savings, this will meet an element of the gap (but is unlikely to meet all of it).

27. As we will have to ensure that we have established our priorities if we are to implement service cuts, we will need an inclusive process to do so which will include all council members and considered engagement with the people of Gwynedd. I am currently discussing this matter with officers with a view to bringing forward a suitable regime in the early spring.
28. We should be glad that our previous forward planning activity has enabled us to ensure that we are not yet in a position of having to implement service cuts in our core budget – a position which is not necessarily replicated at some other authorities but we must face the fact that we will face an element of this in future, especially if the local government grant continues to reduce.
29. However, even if we do take advantage of the opportunity to plan carefully, bearing in mind that our priority is to look for efficiency savings ahead of service cuts, and bearing in mind that establishing and implementing such schemes takes more time than implementing service cuts, there is a danger that time will not allow us to deliver the above vision in its entirety.
30. It will therefore be necessary for the Cabinet to take advantage of any opportunity that arises in the meantime to achieve savings – including any opportunity that arises during the current year.
31. The Audit Committee has given consideration to the financial propriety of the proposed strategy at its meeting on 20 February, and subject to the observations relating to the use of balances noted in the previous report, they were satisfied that the report addresses the possible risks inherent in the proposed strategy.

APPENDIX 1

4 year assumptions 2014/15 - 2017/18

£m	2015/16	2016/17	2017/18	Total
Additions to the budget				
Pay inflation	3.1	3.3	3.3	Based on 2% p.a. from 15/16
Other inflation	1.5	1.5	1.5	Calculation based on CPI predictions and its effect on Council inflation
Payroll costs	0.3	0.3	0.3	Previous experience
Precepts	0.2	0.2	0.2	Best estimate
Borrowing costs	0.1	(0.3)	-	Specific calculation
Interest	-	(0.1)	(0.1)	Best estimate
Demography	0.4	0.3	0.3	Specific calculation
Pressures on services	2.1	5.0	1.2	£1m a year for genera pressures + known significant other pressures
Total additions	7.7	10.2	6.7	
Government Grant reductions	4.4	3.5	6.1	-2.5% in 15/16; -2% in 16/17 a -3.5% in 17/18
Total gap after grant	12.1	13.7	12.8	

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 the financial strategy is a matter for the Cabinet to decide it has indicated a desire to be inclusive and consult with the Council. I support the intention to do so.

Head of Finance:

See my detailed opinion on the '2014/15 Budget' report (an accompanying item on this agenda). I have worked with the Cabinet Member for Resources and the Corporate Director (DOW) in the preparation of the Medium Term Financial Plan, and I confirm that this report is firmly based on estimates which are fair and prudent.