

A MEDIUM TERM PLAN TO ADDRESS THE FINANCIAL GAP 2018/19 - 2020/21**Introduction**

1. For a number of years, whilst establishing its budget, Gwynedd Council has been planning ahead to prepare for what might be on the horizon. This has paid dividends, and in fact this is why we have been able to balance the 2018/19 budget without having to decide on any additional cuts which would have an impact on the people of Gwynedd. Not every Council is in a position to do this.
2. In order to continue on this course, in addition to establishing a budget for 2018/19, an effort has also been made to project the financial situation for the following two years, so that we can set the 2018/19 position in its wider context and plan how we are going to meet the challenges ahead.
3. The grant figure we will receive from the Welsh Government is the most uncertain figure for 2019/20 onwards. As the grant finances 72% of the Council's net budget, clearly this figure is key to the projections. We know from the statement of the UK Government's Chancellor, and the statements made by Mark Drakeford, Cabinet Secretary for Finance in the Welsh Government, that there could be a challenging future ahead for local government in Wales. I elaborate about this in parts 10-14 below.
4. The second fan chart (in part 18 below) for the next three years sets out a realistic and prudent picture of what could lie ahead for us.
5. Unlike some other authorities, assuming that we will be able to increase Council Tax by 4.8% and realise the additional efficiency savings, implementing the agreed savings schemes and cuts (adopted by the Council in March 2016 and amended by the Cabinet since then) will be sufficient in order for Gwynedd Council to balance the budget without deciding on additional cuts by 2018/19.

Background / Summary

6. Since the 2017/18 – 2019/20 Financial Strategy was decided upon in February 2017, detailed work has taken place to re-assess likely budgetary commitments and assess a range of possibilities. In order to identify the financial challenge for the new Council, further to thorough research, a range of assumptions were identified for the Government's grant 'settlement' level and the spending requirements of the Council's services, in order to provide possible financial scenarios for 2018/19 - 2020/21.
7. These financial scenarios were presented to the Council in the format of a fan chart (probability funnel) in a number of meetings in May - July 2017, including a presentation to elected members at their welcome day on 9 May, members training on the Council's budget on 7 June and 5 July, and in the formal Cabinet meeting on 18 July. The fan chart presented possible financial scenarios for the Council in order to identify the probable need for savings (or 'funding gap') up to 2020/21.
8. Our forecasts constantly predicted that there was a possibility of being able to cope with the 2018/19 financial position by harvesting ongoing savings, but by 2019/20 – 2020/21 further savings would be required. I confirm that this is true for 2018/19, and will continue to be a possible scenario by 2019/20 and 2020/21, when the Council could face a funding gap of around £16m. Therefore, the savings strategy already agreed upon for 2019/20 should continue.

9. Further, the final figures are in hand for 2018/19, and it appears the budget could be balanced by harvesting the savings in progress, together with an increase of 4.8% in the level of Council Tax – which will be around the average level of increase in Welsh local authorities, as suggested in the previous assumptions in the medium term financial plan for 2017/18 - 2020/21.

Government's Grant Assumptions for 2019/20 and beyond

10. As 'central' grant 'settlement' funds around 72% of the Council's net budget, this element is key whilst attempting to project the financial position. A combination of economic and political factors decide how much grant we receive – the state of the economy, expenditure and taxation policies, and the UK and Welsh Government's preference options.
11. In order to update the projection of what might happen, we have used the latest information available to us now, including Welsh Government's final settlement for 2018/19 with an indicative figure of -1% for 2019/20, and the UK's public spending predicted in the Chancellor's latest Budget.
12. The Welsh Government, in the provisional settlement statement, had bound the 2019/20 indicative settlement to a threat of £3.5 billion in public spending cuts from the UK Government's efficiency review. Mark Drakeford's letter in October declared:

"A further reduction of 1.5% is the indicative settlement for the following year. This includes the effect that the £3.5 billion of unallocated cuts the Chancellor of the Exchequer intends enforcing in 2019/20 will have on the Welsh Government's budget."

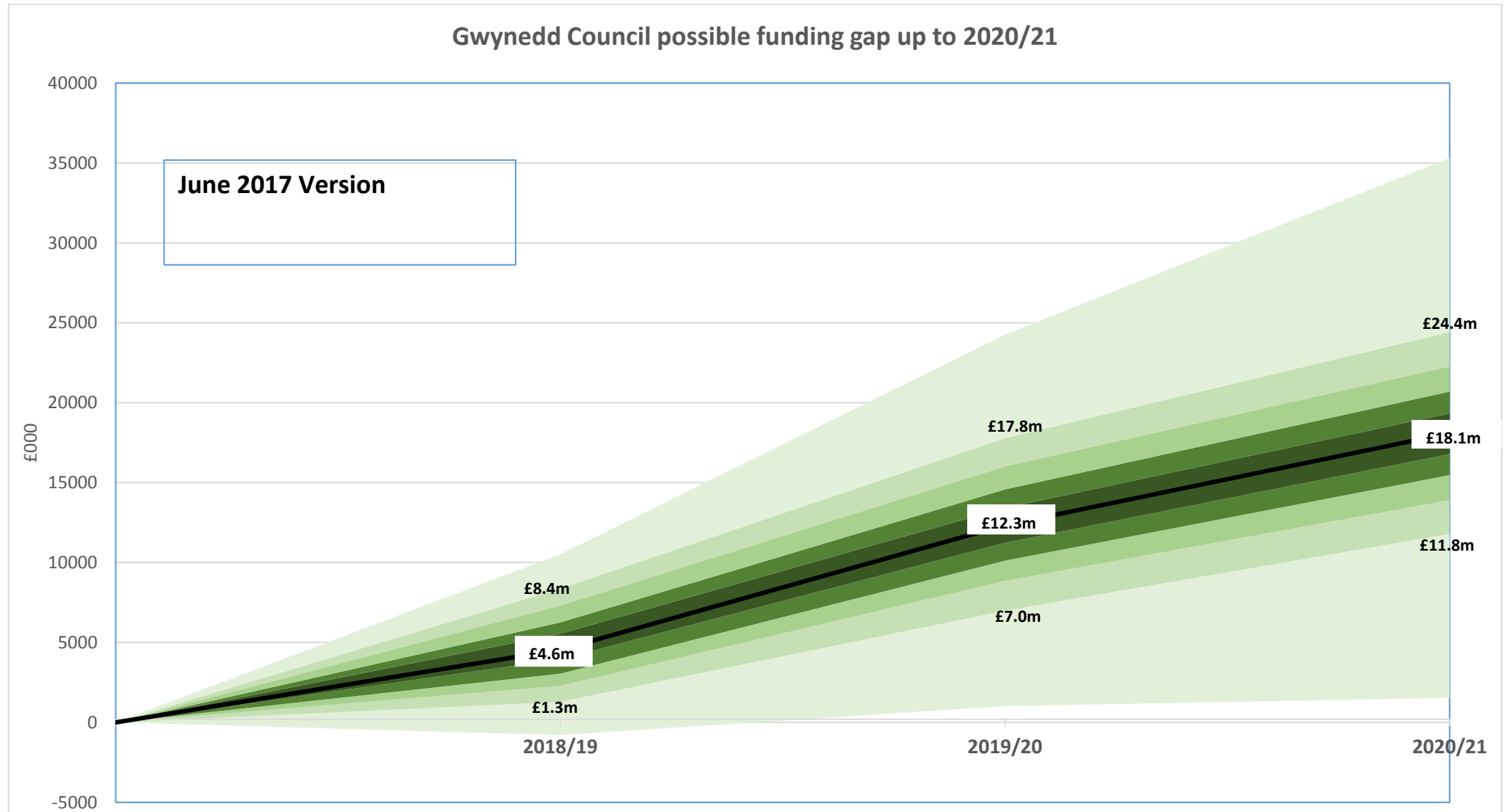
13. It now appears that the UK Government will not be implementing the efficiency review / threat of £3.5 billion on public spending, and therefore there will not be any negative 'consequential' for the Welsh Government's budget. Knowing these implications, i.e. that the Welsh Government will have considerable flexibility regarding its budget, Welsh local authorities should make a joint effort to ensure a positive settlement by the Welsh Government for 2019/20, rather than a grants cut of "-1%", which would reduce Gwynedd Council's grant by £1.75m.
14. Despite that, in the meantime, with so many uncertain economic and political factors, the Council must plan prudently for a range of possible scenarios. In order to model how much might be allocated to local government in Wales, for the forecasts in this report we have made reasonable assumptions about the situation of relevant UK Government departments, the impact of the Barnett formula, and the discretion of the Welsh Government (how much 'protection' they'll give to Health and other projects).

The Council's Expenditure Requirements

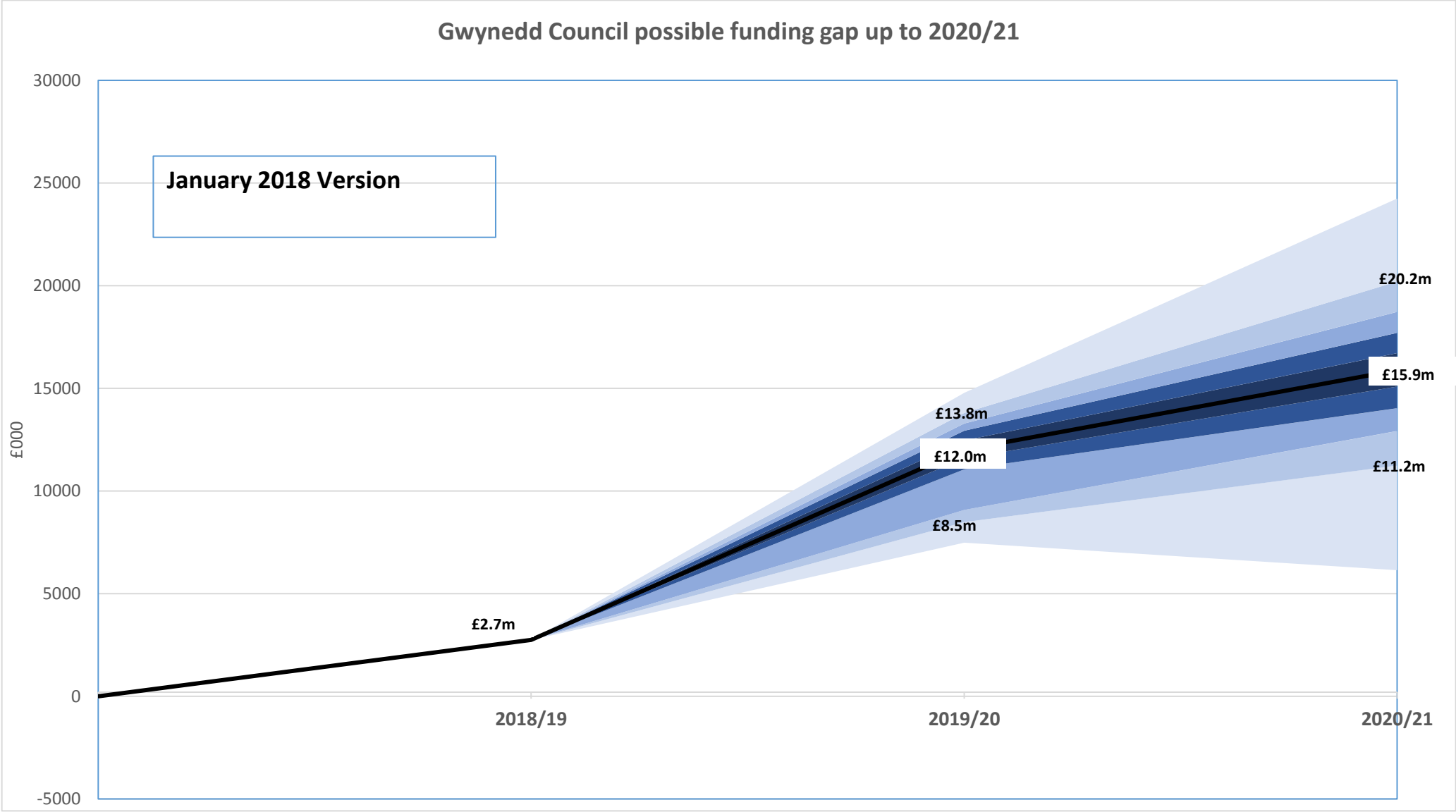
15. The most recent financial information regarding the Council's expenditure requirements for the 2018/19 budget was prepared based on true 'inflation' (a specific level of inflation on wages and other budgets) and relevant trends, together with the 'pressures on services', including demography (pupil numbers statistics and the number of older people) and bids for inevitable growth in expenditure, net of possible adjustments in order to minimise the requirement on the budget. We have also reviewed a number of expenditure headings (mainly corporate) in order to tighten the budget where possible, in order to minimise expenditure requirements.
16. However, as a result of the recent proposal of 2%+ in 2018/19, and another 2%+ by 2019/20, as a national pay agreement for local government staff, we have had to review our pay inflation forecasts to a substantially higher level. We have also increased the level of other inflation, and have reviewed the forecasts for service demand. Of course, the basis of the forecasts are less dependable whilst forecasting further into the future.

Possible Scenarios – the need for savings

17. In meetings in May - July 2017, a combination of possible scenarios were presented in the form of the following fan chart, showing results in 10% bands.



18. By now, we have updated the projections of what could happen, and the possible scenarios are shown in the following revised fan chart.



Possible 2018/19 Funding Gap

19. As part of the past savings regime, savings of £ 2.75m have already been planned to be realized during 2018/19 (with further small savings in 2019/20 and 2020/21), which are a combination of savings and cuts which have already been approved by the Council / Cabinet (£1.85m for 2018/19), as well as achievable savings that are underway yet to be approved (£896k for 2018/19). After reviewing expenditure and achieving £2.75m of savings by 2018/19, raising a Council Tax by 4.8% will balance the budget.
20. As noted in the report on the 2018/19 budget, implementing the savings schemes which have already been agreed will be sufficient for Gwynedd Council to balance the budget without making any new decisions on additional cuts by 2018/19. However, there is a need to prepare for a significant challenge in the following two years (2019/20 and 2020/21).

2019/20 and 2020/21 Savings Strategy

21. In accordance with the Council's normal financial planning arrangements, as the yield of our previous savings regime ends in 2018/19, the Council has begun to plan for additional savings that we will need from 2019/20 onwards. For the purposes of medium term financial planning, we have produced a range of possibilities for the next three years. This has produced over 46,600 different scenarios which are simplified in the fan chart above (part 18).
22. While the 2018/19 position can be balanced, there is a significant challenge ahead for the Council over the following 2 years, and the fan chart shows that a savings strategy will be required to find a possible total of say £16m by 2019/20 and 2020/21. We must continue with the planned procedure to identify savings and cuts, while pressing on the Welsh Government to provide a grant settlement without any cuts for 2019/20 and beyond.
23. It is possible that the outcome will be outside our 'best / worst case scenarios' on the chart, but if the 'central' case scenario happens, £12m of additional savings will be required by 2019/20 and a further £4m by 2020/21 (total of £16m). By disregarding the most peripheral 10% of results, the total three-year gap can range between £ 11.2m and £ 20.2m. Therefore, our arrangements need to be flexible enough to be able deliver up to £20m of savings.
24. The procedure for identifying future savings was reported to the full Council meeting on 5 October 2017, when the Cabinet Member for Finance noted that the Council remained in challenging times. He reminded Council that the achievement of the Gwynedd Challenge savings was almost complete, and it had been a successful means to find the necessary savings, but now there is a need for a new savings regime for the future.
25. The full Council on 5 October received a presentation by the Chief Executive. He noted that the Council had been finding savings since 2006, in order to meet the effects of inflation and pressure on services. With the impact of UK Government cuts continuing, it was increasingly apparent that we need to be started planning for savings to be implemented from 2019/20 onwards.
26. He explained that Finance officers had projected a number of financial situations (above), and that the Cabinet would decide on differential savings targets for Council departments, in order to meet the most likely situations. The heads of department would then present potential savings to meet those targets, so that the Scrutiny Committees can challenge those plans on behalf of the people of Gwynedd.
27. After Members have had the opportunity to voice their views in appropriate Scrutiny Committees and workshops over the summer of 2018, a public consultation would take place, before proceeding to determine and implement the final savings plans to be implemented annually from 2019/20 and onwards.

28. Following the presentation to the full Council on October 5, members noted that the picture appeared very serious and that there was a collective responsibility to make the most of the situation and to take part. Members asked if there would be a 5% limit on the Council tax increase. The answer was that a 5% tax increase would mean only an extra £3.5m to the Council's coffers, an amount that would not meet inflation, and it is possible that a local authority somewhere in Wales will face the pressure to breach 5% this year, as the financial situation was extremely vulnerable in some places.
29. A question was also asked, as some of the Council's services were already under severe pressure, where was the line where it was not possible to make further cuts? It was concluded that it was not yet clear where that line was, but it will be necessary to ensure that all waste elimination and other efficiency options have been detected and exhausted before it arrives.
30. Whatever the future grant 'settlements' will be, that will not change our ability to discover more efficiency savings. Therefore, we should keep to our present strategy which includes maximising such savings, and dealing with any additional funding gap (which will become clearer during 2018/19) by implementing cuts in 2019/20 and beyond.

Medium Term Financial Plan for 3 years

31. Ideally, the Council would prefer to implement a financial strategy over 4 or 5 years. Unfortunately, that is totally unpractical, as Welsh Government has provided a settlement for one year, and an extremely challenging indicative figure for one following year (considering the flexibility that they have).
32. Therefore, it is sensible to deal with the 2018/19 budget now, and continue with the savings strategy to respond in detail by the following two years (2019/20 and 2020/21) when we will have identified the relevant funding gap with more certainty.
33. In the meantime, **we need to ensure that our procedures are flexible enough in order to realise up to £20m savings over the three years 2018/19 - 2020/21. With this in mind, it is recommended to continue with the current savings strategy where the Cabinet will decide on different targets for the Council's departments, the heads of department presenting possible savings to meet those targets, and the scrutiny committees challenging the plans on behalf of the people of Gwynedd, before a public consultation on options to be implemented annually.**
34. Within this regime, we will continue to implement consistent principles regarding considering an increase in the Council Tax similar to the average increase in Welsh local authorities, maximising the efficiency savings that can be achieved (in order to avoid further cuts) and implement cuts only as necessary, in order to meet any remaining balance of the funding gap.