

Meeting: Cabinet

Date: 19 February 2019

Cabinet Member: Councillor Peredur Jenkins, Cabinet Member for Finance

Subject: 2019/20 Budget

Contact Officer: Dafydd L Edwards, Head of Finance

2019/20 BUDGET

Decision sought *(dependent on Cabinet decision on part 10 of the report and Appendix 12)*

- (a)** Recommend to the Council (in its meeting on 7 March 2019) that:
1. A budget of £247,797,900 should be set for 2019/20, to be funded by £176,551,790 of Government Grant and £71,246,110 Council Tax income, with an increase of 5.5%.
 2. £18,316,130 is added to the capital programme to be spent in 2019/20 in order to establish a capital programme worth £34,991,250 by 2019/20 to be funded from the sources noted in Appendix 4 of the report.
- (b)** Approve moving forward with implementing the list of savings schemes in Appendix 3, in order to establish the budget recommended to the full Council.
- (c)** Note the Medium Term Financial Strategy and projections in Appendix 8, and adopt the plan which is in part 18-20 of it.
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1. INTRODUCTION

- 1.1 The Council has to set a balanced budget for 2019/20 and, in accordance with the usual practice, the annual budget is presented within the context of a medium term financial strategy (Appendix 8), ensuring that the budget prepares for the position to come, rather than meeting the requirements of one year alone.
- 1.2 This year, the Council profits from previous years' medium term planning, as we are able to use some previously planned savings to help balance the budget. Nevertheless, some difficult decisions must be made to combine achieving additional savings and increasing the Tax by 5.5%.
- 1.3 It is recommended that the Tax is increased by 5.5% in 2019/20 in order to protect services for the people of Gwynedd, as implementing the other savings schemes that were considered would have been unacceptable due to the effect on the people of Gwynedd.
- 1.4 Having consulted with the public, and having discussed in two series of workshops in December/January, and with the Audit and Governance Committee (14 February), it is a matter for the Cabinet to consider the 2019/20 – 2021/22 financial strategy, by recommending an appropriate budget to the Council for 2019/20.

- 1.5 By 2019/20, we would need to increase our expenditure by £10.37m in order to “stand still” (details in part 3 below), including £2.5m to meet pressures on the services’ budgets (details of individual ‘bids’ are in Appendix 2).
- 1.6 In order to address the financial gap, £5.4m of savings (details in part 4 below and the individual schemes are listed in Appendix 3) will have to be attributed, and then Council Tax will have to be increased 5.5% (details in part 5 below, and in Appendix 6).
- 1.7 A thorough review of the Asset Strategy is underway, but for now we have established a programme on the basis of the minimum required for 2019/20, as noted in Appendix 4, which will mean adding £18,316,130 to the 2019/20 capital programme.
- 1.8 The Medium Term Financial Strategy modelling work in Appendix 8 shows, unless anything fundamental changes in the Government’s actions, that it is likely that flexible procedures are required in order to realise more savings in following years. With this in mind, it is recommended that the Cabinet considers a savings strategy for the future, whilst urging Welsh Government to fund local authorities appropriately.
- 1.9 The 2019/20 budget attempts to protect the services the Council provides for the people of Gwynedd, and recommends a 5.5% Council Tax increase in order to achieve that aim this year. By ensuring savings, they are intended to be achieved in those areas which will have the least effect upon our citizens, but this will be more challenging by 2020/21 and beyond.
- 1.10 It is a matter for the full Council to consider the budget and set the Council Tax for 2019/20 on the basis of the issues noted in the following report. The detailed report notes the factors that influence the proposed revenue budget for 2019/20, and outlines the main changes since 2018/19.

2. WELSH GOVERNMENT GRANT

- 2.1 The Welsh Government has announced the settlement to finance local government for 2019/20. The details, as announced officially by Welsh Government, are noted in the table below, together with the real “cash” figures:

Revenue Support Grant 2018/19 – 2019/20	Total Welsh Authorities £	Gwynedd Council official £	Gwynedd Council “cash” £
2018/19 Government Grant (without amendment)	4,214,066,930	176,376,410	175,127,330
2018/19 Government Grant (amended)	4,227,135,930	176,926,640	175,677,570
2019/20 Government Grant	4,237,431,000	176,551,790	176,551,790
Increase £	+10,295,070	-374,850	+874,220
Increase %	+0.2%	-0.2%	+0.5%

Further details are available here –

<https://gov.wales/topics/localgovernment/finandfunding/settlement/lg-settlement-2019-20/final-settlement-2019-20/?lang=en>

- 2.2 It can be seen from the Welsh Government's official figures which are in the above table notionally that Gwynedd Council receives a decrease in the grant of £375k by next year (after amending the 2018/19 figure to reflect the transfers into the settlement), which is a reduction of -0.2%, with the average increase across Wales being +0.2%.
- 2.3 A number of factors feed the local government grant allocation formula, namely the number of pupils, number of income support claimants, etc. and those factors have not gone in our favour this year.
- 2.4 Despite that, in contrast to the £374,850 reduction in the Welsh Government's "like for like" official figures (above), quite a significant increase of £1,249,070 was received due to a tax base adjustment, which re-distributes the grant between Welsh local authorities. This was due to a decrease in council tax properties in Gwynedd (to compensate for the effect of migration of 'holiday homes' to the business rates list), compared with the usual general increase in council tax properties across other Welsh local authorities. This means that the grant movement in "cash" terms is a net increase of £874,220 which is +0.5%.

3. COUNCIL REVENUE EXPENDITURE - 2019/20

- 3.1 The table below shows the increase in the expenditure required in order to "stand still" in 2019/20.

Additional Expenditure Requirements

	£	£
Base Budget		242,862,930
Staff Salary Inflation	5,260,930	
Teachers' Pensions	1,632,340	
Other Inflation (suppliers)	2,253,830	
Levies	372,860	
Demography	878,420	
Transfers to the Settlement	546,640	
Bids – Pressures on Services	2,513,390	
Miscellaneous Budget Adjustments	360,060	
Earmark the additional Council Tax Premium yield to Reserves	669,560	
Borrowing Costs / Interest on balances	-149,270	
Services' Income Adjustments	-100,640	
Teachers' Pensions Grant	-1,632,340	
Specific Grants	-2,000,000	
Net total of increases		<u>10,370,000</u>
Total 2019/20 expenditure requirements before savings		<u>253,232,930</u>

3.2 **Base Budget 2018/19**

Although £243m is the net 2018/19 expenditure, it is important to note that the Council's true expenditure is £403m as we receive a multitude of specific grants worth £99m and raise nearly £61m for services which we provide.

3.3 **Salary inflation £5.26m**

Provision has been made for a 2% salary increase for Council staff, in accordance with the national agreement, with a significantly higher % for some staff on lower grades worth £1.6m to meet the national 'living wage' requirements. Also, £1.4m is provided for a salary increase of up to 3.5% for Gwynedd's school teachers.

3.4 **Teachers' Pensions - £1.63m**

The Westminster Government has increased the employers pension contribution rate for the Teachers' Pensions Scheme from 16.5% to 23.6% from September 2020, and 7% of the value of costs for Gwynedd school teachers' salaries for 7 months is £1.63m. The Department for Education is consulting regarding funding the cost fully in schools in England, and before long, a specific grant is expected to be received to fund the cost in schools in Wales.

3.5 **Other inflation £2.25m**

Net amount which includes provision for the effect of the 'living wage' (minimum pay) on the costs and fees of our private suppliers, together with a significant increase in inflation on fuel and energy budgets.

3.6 **Levies £373k**

In December 2018, North Wales Fire Authority decided to raise the levy 5.2% on the constituent authorities, which increases the requirement on Gwynedd Council of £313k, while there was an increase of £10k in special drainage levies for 'Natural Resources Wales', and a £50k increase in the Snowdonia National Park Authority levy.

3.7 **Demography £878k**

Total amount which reflects +£418k due to a net increase in the number of pupils in schools, +£471k for the Adults Department due to an unavoidable increase in care costs for an ageing population, and +£11k due to an increase in the number of children receiving care from the Children and Families Department.

The net figure of +£418k for schools hides different positions in different sectors, namely secondary +£617k, primary -£260k and special +£61k.

3.8 **Transfers to the settlement £546k**

Apart from resources for the teachers' salary agreement (pressures which have been included within 'Salary Inflation' above), two responsibilities will transfer into the Welsh Government's grant settlement for the Council by 2019/20. The budgets that will transfer to the Council's budget, together with the relevant responsibilities, will be assigned to the relevant departments.

Therefore, there will be an increase of £312k in the Adults, Health and Wellbeing Department's budget to reflect new responsibilities regarding the capital threshold for residential care.

There will also be a £234k increase in the Education Department's budget to reflect the transfer of more free school meals in the context of implementing Universal Credit.

3.9 **Pressures on Services £2.51m**

Unavoidable 'bids' – refer to Appendix 2 for details of each individual 'bid'.

It is recommended to approve applications ("bids") worth £2.51m by the Council's departments for permanent additional resources to meet the unavoidable pressures on their services.

It is also recommended to approve a one-off bid worth £38,280 from the Reserve to Assist the Financial Strategy.

Bear in mind that many of the Council's main priorities (developmental matters in order to make a difference) are being funded and commissioned separately (individually by Cabinet decisions), through the Council's Plan. What is presented here through the "bids" are unavoidable commitments that the departments are facing now.

Every department has the right to identify any expenditure which the Council has to fulfil to ensure the continuation of basic services. This heading is not for new developments, but rather for continuation of current basic services.

Of course, an element of these applications are highlighted whilst reviewing this year's spending patterns. Others are a result of factors where there is a need for expenditure in order to protect outcomes for the public, or to meet statutory requirements. There is also an element of central government creating more pressure and expectations, and then we have to deal with the consequential effects.

The items presented here in Appendix 2 have been challenged thoroughly by the Corporate Management Team and the Cabinet Member for Finance before being recommended to be approved by the Cabinet. Further, all these 'bids' were discussed when they were presented on slides at the series of 'Budget Workshops' on 4-7 December 2018, where Council members reached a consensus that the expenditure was unavoidable.

3.10 **Adjustments to Miscellaneous Budget £360k**

A total which reflects a significant number of adjustments in provisions across the Council, but mainly to earmark a reserve to address possible additional expenditure pressures during 2019/20 (especially in the children's care field) and also to address income predicaments during 2019/20 (similar to the decision regarding the price of school meals in September 2018).

3.11 **Council Tax Premium £670k**

It is recommended to earmark the Council Tax Premium yield in 2019/20 in a specific reserve to be used to finance the Council's Housing Strategy. £2.03m had been earmarked in the original budget for 2018/19, therefore the additional £670k will mean a total of £2.7m by 2019/20.

Specific attention is given to this in Appendix 6.

3.12 **Borrowing Costs and Interest on Balances -£149k**

Projection of a reduction in interest payable on loans in 2019/20, as old long-term loans come to an end.

3.13 **Adjustments to Services' Income Budgets -£101k**

Net amount which has adjusted services' income targets, including -£198k Adults (Welsh Government has raised the non-residential weekly fees cap from £70 to £80),

the Education Department +£66k (the cost of freezing the price of school meals in September 2018), Consultancy -£100k (additional staff fees), Finance +£97k (£55k as a result of new bank costs and £42k benefit subsidy adjustment), Economy and Community +£30k (mainly Maritime fees), and Environment +£5k (+£40k planning fees, -£20k street care, and -£15k traffic and statutory arrangements).

3.14 **Specific Grants -£2m**

A substantial number of specific grants are received where the Council is often expected to commit to additional specific expenditure. In some cases, specific grants can be used to fund pressures on unavoidable expenditure.

This has already been mentioned in 3.4 above where a specific grant is expected in order to fund the additional cost of teachers' pensions. Also, a grant of £0.3m is expected to fund teachers' salaries inflation in 2019/20, a £1.2m care pressures grant which could be used to fund Adults and Children's demography and 'bids', together with £0.5m to prevent children from being taken into care which could be used to fund some of the Children's Department's preventative bids.

4. **SAVINGS**

4.1 The Medium Term Financial Strategy presented with the 2018/19 budget to the full Council on the 8th of March 2018 forecasted a funding gap of between £11m and £20m over the 3 years 2018/19 – 2020/21. Therefore, it was decided to make an early start on the challenging task of identifying significant savings for 2019/20 and beyond.

4.2 This resulted in the Cabinet setting challenging savings targets for the departments, considering all 'possible' schemes presented by department heads during the summer of 2018. The Cabinet members achieved the difficult work of selecting the schemes presented here in Appendix 3, disregarding options where the effect on the people of Gwynedd would be unacceptable.

4.3 Having identified the probable 2019/20 funding gap in the wake of the Welsh Government's disappointing indicative 'settlement' for local authorities in October 2018, the budget position was explained to Council members in a series of 'Budget Workshops' on 4–7 December 2018.

4.4 Having listened to members' feedback in the 'Budget Workshops', the Cabinet Member for Finance presented a report on proposed savings to the Cabinet meeting on 18 December 2018, noting that the Council is facing a significant funding gap by 2019/20 and is presenting a programme of savings to partly address the gap, with the increase in Council Tax having to address the residual gap. The Cabinet decided to adopt the savings schemes presented in 6 lists, depending on the results of the consultation, as ones that the Council would have to achieve. Details of the relevant minutes and the original lists are here -

<https://democracy.cyngor.gwynedd.gov.uk/mgAi.aspx?ID=12357>

4.5 The Cabinet held a public consultation during January 2019 and the main findings have been announced on line. These conclusions are also presented here in Appendix 11, and the Cabinet must pay appropriate attention to the results of the consultation whilst deciding on implementing the savings schemes. The public's objection to some specific

plans were considered in the Members' Workshop on 5 February, and some of those have been chosen in Appendix 12.

- 4.6 Also, 6 'Savings Workshops' were held with Council members on 18–28 January to see if members wanted to change direction, and an informal collective meeting was held on 5 February in order to ensure members' consent on the way ahead.
- 4.7 Therefore, depending on the Cabinet's decision on part 10 of the report and Appendix 12, should the Council approve implementing the proposed schemes presented in Appendix 3, we would harvest £2.45m worth of further savings in 2019/20.
- 4.8 Also, in order to address the funding gap, £2.48m of 'Gwynedd Challenge' savings, which have already been approved for 2019/20, can be harvested.
- 4.9 Additionally, the Chief Executive was asked to go ahead with his ideas to find a further £0.5m efficiency savings in order to reduce the funding gap.

Savings to address the 2019/20 Funding Gap	
	£
Approved Gwynedd Challenge Savings	2,483,100
Proposed Savings Schemes	2,451,930
Further Efficiency Savings	<u>500,000</u>
Total Savings to close the Gap	<u>5,435,030</u>

- 4.10 As a result, there would be a total of £5.4m savings to be used to reduce the funding gap. Clearly, an alternative decision on the schemes in Appendix 12 would mean a reduced total, as noted in part 10 of the report.
- 4.11 All the proposed savings schemes which need to be approved are presented here in Appendix 3, as presented to the Cabinet on 18/12/18, but with updated assessment impact details / links.

5. 2019/20 FUNDING GAP AND THE COUNCIL TAX

- 5.1 It can be seen from part 3 above, that the Council's expenditure requirements (before deducting savings) for 2019/20 are £253.2m. It is noted in part 2 above that the Welsh Government's grant will be £176.6m.
- 5.2 As explained in part 3 above, a total of £5.4m of savings to be used to reduce the funding gap.

Establishing the 2019/20 Budget	
	£
2018/19 Base Budget	242,862,930
Additional Expenditure Requirements	<u>10,370,000</u>
2019/20 Expenditure Requirements before Savings	253,232,930
less Welsh Government Revenue Grant Income	-176,551,790
less Total Savings to close the Gap	<u>-5,435,030</u>
Funding Gap from Council Tax	<u>71,246,110</u>

- 5.3 This means that there is a remaining gap of £71.25m, and it is recommended to meet that gap with Council Tax. The Tax would need to be raised by 5.5% in order to produce sufficient income. Again, should there be an alternative decision on the savings schemes in Appendix 12, then the gap to be funded from the Tax would be more, as noted in part 10 below.
- 5.4 Background information and the context for setting the Tax level (together with details of the Premium on second homes and empty properties) is presented in Appendix 6.

6. CONCLUSIONS

- 6.1 This report and the appendices set out the factors that should be considered when establishing the 2019/20 budget and confirms that the savings strategy to address the financial position which the Council is facing must continue.

2019/20 BUDGET

- 6.2 Dependent on the Cabinet's decision on Appendix 12, it is recommended to address a revenue expenditure requirement of £247.8m, having added £10.4m (which includes a provision of £2.5m for pressures on services).
- 6.3 After receiving a grant of £176.6m from Welsh Government and depending on £5.4m of savings, the level of Council Tax will need to increase 5.5% to yield £71.25m of income in order to close the 2019/20 funding gap.

Balanced budget for 2019/2020	
	£
2019/20 Expenditure Requirements before Savings	253,232,930
2019/20 Savings Total	<u>-5,435,030</u>
2019/20 Budget	<u>247,797,900</u>
To be funded from -	
Grant Income	176,551,790
Council Tax (yield after raising 5.5%)	<u>71,246,110</u>
2019/20 Budget	<u>247,797,900</u>

- 6.4 This will mean setting a net budget of £247,797,900. An analysis of the budget per service is given in Appendix 1. Once again, should there be an alternative decision on the savings schemes in Appendix 12, then the budget figure would be more, as noted in part 10 below.

7. CAPITAL

- 7.1 It is intended to establish a new 2019/20 – 2028/29 asset strategy and present it for approval soon. Details are in Appendix 4.
- 7.2 For the time being, it is recommended to add £18,316,130 to the capital programme to be spent in 2019/20, in order to establish a total programme worth £34,991,250 to be funded from the sources noted in Appendix 4.

8. LONGER TERM STRATEGY

- 8.1 The revised Medium Term Financial Strategy is included here in Appendix 8. This year, there is more uncertainty about the future due to the Westminster Government's 2019 Expenditure Review.
- 8.2 On the basis of our assumptions, it is probable that additional savings will need to be identified by 2020/21 and 2021/22, and that could be as much as £10m over the two years. Should the medium scenario in our projections happen, £5.6m more savings would be required over the two years 2020/21 and 2021/22, but an element of the 2019/20 savings yield (up to £4.2m) will be available as a head start whilst addressing part of the required savings.
- 8.3 Therefore, a savings strategy for the future will need to be considered, whilst urging Welsh Government to fund local authorities appropriately.

9. OTHER CONSIDERATIONS AND VARIOUS ASSESSMENTS

- 9.1 It is considered that the current level of general balances, i.e. £6m, is appropriate and this budget does not recommend the use of these balances for practical cash flow and unexpected expenditure. Detailed information about the balances and reserves are presented in Appendix 7.
- 9.2 Appendix 5 explains Gwynedd's schools' very favourable budget position in detail.
- 9.3 When deciding on a budget, and in particular regarding savings schemes, the Cabinet and the Council must consider the effects of their decisions from an equality perspective in accordance with the Council's statutory duties through the 2010 Equality Act. As a result, detailed assessments have been prepared for the individual savings schemes and also for the Budget. Appendix 9 deals specifically with the duty, and the results of the assessments are summarised in Appendix 3. The complete assessments are available as background documents by following the links in Appendix 3.
- 9.4 The Council implements the Wellbeing of Future Generations (Wales) Act 2015 and the recommendations in the report are based and developed in accordance with the Council's statutory duty under Section 3 to undertake sustainable development in all its activities. More detailed information about the Wellbeing Act and relevant findings are in Appendix 10.
- 9.5 The statutory finance officer must express an opinion on the robustness of the estimates. An assessment of risks and appropriate confirmation are presented in Appendix 13.

10. ALTERNATIVE DECISIONS

- 10.1 On 5 February 2019 in a Big Savings Workshop, 5 savings schemes were chosen for further attention. These are set out in Appendix 12.
- 10.2 Should there be a decision not to action these 5 schemes, the figures in the above recommendations would change as follows –

2019/20	Above Report	Adjustment	Change
Budget	247,797,900	+71,720	247,869,620
Income from Tax	71,246,110	+71,720	71,317,830
Savings Total	5,435,030	-71,720	5,363,310
Tax Increase	5.5%	0.1%	5.6%

Opinion of local member

Not a local matter

Views of the Statutory Officers

Monitoring Officer:

It is apparent that there are a number of considerations for the Cabinet to take into account in forming a recommendation on the Budget for the Council and in deciding on the programme of savings to meet the financial gap. The report provides detailed information in relation to these matters. It is important that the Cabinet gives appropriate attention to all these matters in coming to a view. The results of the public consultation exercise are also reported upon in detail and appropriate consideration needs to be taken of the responses received in coming to a conclusion. I can provide any further guidance in the meeting.

Head of Finance:

I have collaborated with the Cabinet Member in the preparation of this report and I confirm the content. Having considered all the risks outlined in Appendix 13 to the report, and the mitigation steps, I am of the opinion that the Council's Budget for 2019/20 is robust, sufficient, and achievable.

APPENDICES

- 1 Budget Summary
- 2 Bids
- 3 Savings
- 4 Capital
- 5 Dealing with the Schools' Budget in 2019/20
- 6 Council Tax
- 7 Balances
- 8 Medium Term Financial Strategy
- 9 Equality Impact Assessment
- 10 Wellbeing of Future Generations Act
- 11 Consultation Results
- 12 Alternative Decisions
- 13 Robustness of Estimates