

Meeting: Cabinet
Date: 18 February 2020
Cabinet Member: Councillor Ioan Thomas, Cabinet Member for Finance
Subject: 2020/21 Budget
Contact Officer: Dafydd L Edwards, Head of Finance

2020/21 BUDGET

Decision sought

- (a)** Recommend to the Council (in its meeting on 5 March 2020) that:
1. A budget of £261,837,750 should be set for 2020/21, to be funded by £187,579,040 of Government Grant and £74,258,710 Council Tax income, with an increase of 3.9%.
 2. Establish a capital programme of £44,247,260 in 2020/21 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.
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1. INTRODUCTION

- 1.1 The Council has to set a balanced budget for 2020/21.
- 1.2 This year, the Council has received a more favourable grant settlement than in previous years. Nevertheless, some decisions must be made to combine achieving additional savings and increasing the Tax by 3.9%.
- 1.3 It is recommended that the Tax is increased by 3.9% in 2020/21 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 members in a series of workshops in January, and with the Audit and Governance Committee (13 February), it is a matter for the Cabinet to recommend an appropriate budget to the Council for 2020/21.
- 1.5 By 2020/21, we would need to increase our expenditure by £15.8m in order to "stand still" (details in part 3 below), including £4.3m to meet pressures on the services' budgets (details of individual 'bids' are in Appendix 2).
- 1.6 In order to address the financial gap, £1.9m 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 3.9% (details in part 5 below, and in Appendix 6).
- 1.7 Last year, there was a thorough review of the Asset Strategy, and this year we propose establishing a capital programme worth £44,247,260 in 2020/21, as set out in Appendix 4.

- 1.8 It is intended to model the Medium Term Financial Strategy (for 2020/21 – 2022/23) during the summer of 2020, following the UK Chancellor’s Budget, etc, in case anything fundamental changes in the Government’s operations. It is possible that flexible procedures will be required in order to realise more savings in subsequent years, but it is intended to consider that after receiving more information.
- 1.9 The 2020/21 budget attempts to protect the services the Council provides for the people of Gwynedd, and recommends a 3.9% Council Tax increase in order to achieve that aim this year. By selecting savings, we will be achieving them in those areas which will have the least effect upon our citizens, but this will be more challenging by 2021/22 and beyond should there be unfavourable grant settlements, as in previous years.
- 1.10 It is a matter for the full Council to consider the budget and set the Council Tax for 2020/21 on the basis of the issues noted in the following report. The detailed report notes the factors that influence the proposed revenue budget for 2020/21, and outlines the main changes since 2019/20.

2. WELSH GOVERNMENT GRANT

- 2.1 The Welsh Government has announced the indicative settlement to finance local authorities for 2020/21. The details, as announced officially ‘like-for-like’ by Welsh Government, are noted in the table below, together with the real “cash” figures:

Revenue Support Grant 2019/20 – 2020/21	Total Welsh Authorities £	Gwynedd Council official £	Gwynedd Council “cash” £
2019/20 Government Grant	4,290,612,000	179,374,740	176,551,790
2020/21 Government Grant	4,474,443,600	187,579,040	187,579,040
Increase £	183,831,600	8,204,300	11,027,250
Increase %	+4.3%	+4.6%	-

Further details are available here –

https://gov.wales/local-government-revenue-and-capital-settlement-provisional-2020-2021?_ga=2.183251429.297550458.1580053366-1435204194.1547569279

- 2.2 It can be seen from the Welsh Government’s official figures which are in the above table notionally that Gwynedd Council receives an increase in the grant of £8.2m by next year (after amending the 2019/20 figure to reflect the transfers into the settlement), which is 4.6%, with the average increase across Wales being 4.3%.
- 2.3 A number of factors feed the local government grant allocation formula, such as the number of pupils, number of income support claimants, etc. and the refuse collection factor has gone in our favour this year (reflecting higher collection costs in a rural area).
- 2.4 Also, as well as the Welsh Government’s “like for like” official figures (above), quite a significant increase 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 (compensating 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.

- 2.5 The Welsh Government is expected to publish the final grant settlement for local authorities on 25 February, together with the Welsh Government's own final budget, but no significant change is expected to the 'indicative' grant figures.

3. COUNCIL REVENUE EXPENDITURE - 2020/21

- 3.1 The table below shows the increase in the expenditure required in order to "stand still" in 2020/21.

Additional Expenditure Requirements

	£	£
Base Budget		248,013,890
Staff Salary Inflation	4,535,220	
Teachers' Pensions	1,193,180	
Other Pensions	-1,684,170	
Other Inflation (suppliers)	2,865,940	
Levies (Fire & NRW)	148,310	
Demography	821,440	
Transfers to the Settlement	2,062,350	
Discontinuation of Specific Grant	500,000	
Bids – Pressures on Services	4,336,690	
Capital Bids	1,004,000	
Collective Agreement Adjustment	380,000	
Various Budget Adjustments	-48,850	
Borrowing Costs / Interest on Balances	-304,850	
Net total of increases		<u>15,809,260</u>
Total 2020/21 expenditure requirements before savings		<u>263,823,150</u>

3.2 Base Budget 2019/20

Although £248m is the net 2019/20 expenditure, it is important to note that the Council's true expenditure is £418m as we receive a multitude of specific grants worth £110m and raise nearly £60m for services which we provide.

3.3 Salary inflation £4.5m

Provision has been made for a salary increase of over 2% for Council staff, in line with our projection of the national agreement, which will be effective from April 2020. Also, provision has been made for a 2.75% salary increase for Gwynedd's school teachers for the period April – August 2020, and 2% from September 2020 – March 2021.

3.4 Teachers' Pensions - £1.2m

The Westminster Government has increased the employers pension contribution rate for the Teachers' Pensions Scheme from 16.5% to 23.6% from September 2019, and 7% of the value of costs for Gwynedd school teachers' salaries for 5 months is £1.2m (with £1.7m in 2019/20, the cost of this for a full year is nearly £3m).

3.5 **Other Pensions -£1.68m**

The results of Gwynedd Pension Fund's triennial actuarial valuation concluded that the whole fund was funded 108% on 31/03/19 and Gwynedd Council's element as an employer was funded 109%. This was mainly due to better than expected returns from investing on the stock market since 2016.

As a result, the Fund's actuary has allowed us to reduce Gwynedd Council's pension contribution as an employer from 21.9% to 20.4%, which will save £1,833,170 a year in employment costs. In the midst of all the pressures to spend more in the above list, this £1.8m saving is a substantial relief for the Council's position, and other employees in the Gwynedd Fund have benefitted similarly.

Contrary to the above saving of £1.8m, we are providing an additional £149k for more Council staff joining the pension scheme, via 'auto-enrolment'.

3.6 **Other Inflation £2.9m**

Net amount which includes provision for the effect of the 'living wage' (minimum pay) on the costs and fees of our private suppliers (including £643k for independent residential care homes), together with a significant increase in inflation on fuel and energy budgets (£472k).

3.7 **Levies £148k**

In December 2019, North Wales Fire Authority decided to raise the levy on constituent authorities by 2%, which increases the requirement from Gwynedd Council by £137k, while there was an increase of £11k in the special drainage levy to 'Natural Resources Wales', but no increase in the Snowdonia National Park Authority levy.

3.8 **Demography £821k**

Total amount which reflects +£300k due to a net increase in the number of pupils in schools, +£510k for the Adult Care Department to address the increasing number of people who will need care in 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 +£300k for schools hides different positions in different sectors, namely secondary +£452k and primary -£152k.

3.9 **Transfers to the settlement £2.06m**

Responsibility and resources for teachers' pensions (£1.5m) and salary (£470k) (7/12 element September 2019 – March 2020) will transfer into the Welsh Government's grant settlement for the Council by 2020/21, together with a smaller amount (£87k) for Nursing Care. The budgets that will transfer to the Council's budget, together with the relevant responsibilities, will be allocated to the relevant departments.

Therefore, there will be an increase of approximately £2m in the Education Department's budget and an increase of £87k in the Adults, Health and Wellbeing Department's budget to reflect the relevant expenditure requirements.

3.10 **Discontinuation of Specific Grant £500k**

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

In the 2019/20 budget, specific grants were used to fund the additional cost of teachers' pensions and teachers' salary inflation, and these transfer into the general grant settlement by 2020/21 (see below).

Also, a specific grant of £0.5m was used last year in order to fund some bids for preventative services in the Children's Care Department. Unfortunately, the Welsh Government has decided that the specific grant to 'prevent children from being taken into care' will not continue into 2020/21, and will not transfer into the settlement either.

Therefore the Council must provide £500k now in order to fund the Children's Department's 2019/20 preventative bids, which are by now funding essential jobs and services.

3.11 Pressures on Services £5.34m

Unavoidable 'bids' – refer to Appendix 2 for details of each individual 'bid', including £4.34m revenue and £1m capital. It is recommended to approve applications ("bids") worth £5.34m by the Council's departments for permanent additional resources to meet the unavoidable pressures on their services.

It is also recommended to approve one-off bids worth £311,500 after a sum had been earmarked with this in mind in the November 2019/20 budget review approved by Cabinet on 21 January 2020.

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 in the "bids" in Appendix 2 are unavoidable commitments that the departments are facing now.

Every department is given the opportunity to identify any expenditure which the Council must fulfil in order to ensure the continuation of basic services. This heading is not for desirable new developments, but rather for continuation of current basic services.

Of course, an element of these bids are revealed whilst reviewing the current 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 20-27 January 2020, where Council members reached a consensus that the expenditure was unavoidable.

3.12 Collective Agreement Adjustment £380k

During 2012, the Council had a funding gap of £32m in its medium term financial strategy, and employees were asked to accept a package which was equivalent to them giving a day and a half unpaid to the authority per year.

In a difficult financial period, the employees agreed that they needed to sacrifice a day and a half's wages, in order to protect services and minimise the number of redundancies.

The salary deduction was reduced from a day and a half to one day in 2018. At that time, the Council was committed to removing the one remaining day as soon as practically possible.

In the context of the Council's grant settlement for 2020/21 which is better than expected, we believe that there is an opportunity this year to remove the one remaining day. Although the grant settlement is counterbalanced by additional costs, the position is more favourable than in any year since 2008.

A budget provision of £380k will enable us to give back the day's pay to the Council's staff, i.e. remove the current salary deduction from April 2020 onwards.

3.13 Various Budget Adjustments -£49k

A total which reflects a significant number of adjustments to different budgets across the Council, but mainly to return unused bids.

3.14 Borrowing Costs and Interest on Balances -£305k

Projection of a reduction (£85k) in interest payable on loans in 2020/21, as old long-term loans come to an end, together with an increase (£220k) in returns from investing the Council's balances and cash flow.

4. SAVINGS

4.1 The Medium Term Financial Strategy presented to the Cabinet on 23 July 2019 forecasted a funding gap of between £1.7m and £7.3m in 2020/21 (with a tax increase of 3.5%).

4.2 Therefore, it was decided to ask departments to discover their share of £2m to identify savings for 2020/21, asking the Scrutiny Committees to consider all 'possible' schemes presented by the departments (and schools). The Cabinet members (in the meeting on 17 December 2019) completed the task of selecting the schemes presented here in Appendix 3 (worth £1m), and disregarding options where the effect on services for the people of Gwynedd would be unacceptable.

4.3 Having identified the probable 2020/21 funding gap in the context of the Welsh Government's indicative 'settlement' for local authorities, the budget position was explained to Council members in a series of 'Budget Workshops' on 20-27 January 2020.

4.4 Having listened to members' supportive feedback in the 'Budget Workshops', the Cabinet Member for Finance is presenting the selection of savings worth £1,062,320 to partly address the gap, together with £923,080 of approved savings schemes from previous years, while the increase in Council Tax must address the residual gap.

4.5 Therefore, should the Council approve implementing the proposed schemes presented in Appendix 3, we would harvest £1m worth of further savings in 2020/21.

4.6 Also, in order to address the funding gap, we can harvest £0.9m of savings which have already been approved for 2020/21.

Savings to address the 2020/21 Funding Gap	
	£
Previously Approved Savings	923,080
Further Efficiency Savings	<u>1,062,320</u>
Total Savings to close the Gap	<u>1,985,400</u>

- 4.7 As a result, a total of £1.9m savings can be used to reduce the funding gap.
- 4.8 All the proposed savings schemes which need to be approved are presented here in Appendix 3, as presented to the relevant scrutiny committees in November and then to the Cabinet on 17 December 2019.

5. 2020/21 FUNDING GAP AND THE COUNCIL TAX

- 5.1 It can be seen from part 2 above, that the Council's expenditure requirements (before deducting savings) for 2020/21 are £263.8m. It is noted in part 2 above that the Welsh Government's grant will be £187.6m.
- 5.2 As explained in part 4 above, a total of £1.9m of savings to be used to reduce the funding gap.

Establishing the 2020/21 Budget	
	£
2019/20 Base Budget	248,013,890
Additional Expenditure Requirements	<u>15,809,260</u>
2020/21 Expenditure Requirements before Savings	263,823,150
less Welsh Government Revenue Grant Income	-187,579,040
less Total Savings to close the Gap	<u>-1,985,400</u>
Funding Gap from Council Tax	<u>74,258,710</u>

- 5.3 This means that there is a remaining gap of £74.3m, and it is recommended to meet that gap with Council Tax. The Tax would need to be raised by 3.9% in order to produce sufficient income.
- 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 / 2020/21 BUDGET

- 6.1 This report and the appendices set out the factors that should be considered when establishing the 2020/21 budget and, despite a more favourable grant settlement this year, confirms that savings must continue to be harvested in order to address the financial position facing the Council.
- 6.2 It is recommended to address a revenue expenditure requirement of £261.8m, having added £15.8m, which includes providing £5.3m in order to meet the demand for services.
- 6.3 After receiving a grant of £187.6m from Welsh Government and depending on £1.9m of savings, the level of Council Tax will need to increase 3.9% to yield £74.3m of income in order to close the 2020/21 funding gap.

Balanced budget for 2020/21	
	£
2020/21 Expenditure Requirements before Savings	263,823,150
2020/21 Savings Total	<u>-1,985,400</u>
2020/21 Budget	<u>261,837,750</u>
To be funded from -	
Grant Income	187,579,040
Council Tax (yield after raising 3.9%)	<u>74,258,710</u>
2020/21 Budget	<u>261,837,750</u>

6.4 This will mean setting a net budget of £261,837,750. An analysis of the budget per service is given in Appendix 1.

7. CAPITAL

7.1 The 2019/20 – 2028/29 asset strategy was established by the full Council on 7 March 2019 and Cabinet on 2 April 2019, and we are adding to it for 2020/21. Details are in Appendix 4.

7.2 It is recommended to add £1m of revenue to the capital programme to be spent in 2020/21, in order to establish a total programme for 2020/21 worth £44,247,260 to be funded from the sources analysed in Appendix 4.

8. LONGER TERM STRATEGY

8.1 Usually, the Medium Term Financial Strategy is included with the budget report. This year, there is more uncertainty about the future in advance of the Westminster Government Chancellor's budget on 11 March 2020.

8.2 Welsh local authorities must also forecast Welsh Government's policy/intent. As Julie James AM, the Local Government Minister, states in a letter to north Wales local authority Leaders on 30 January:

"The Welsh Government's ambition is always to provide as much early certainty as possible to our partners and stakeholders regarding spending plans and multi-year settlements, however, this must be balanced with realistic and sensible planning assumptions. Coupled with the ongoing position around Brexit, the lack of clarity in relation to the UK's fiscal prospects creates an unprecedented challenge for us in developing our spending plans for the future. In these uncertain times ..."

"... we do recognise and are sympathetic to the calls from our public sector partners for budgeting over a longer period in order to support forward financial planning. The next UK Budget on March 11 will bring some clarity to the Welsh Government's finances in the short term, and any future funding will need to be considered within the context of the UK Comprehensive Spending Review later this year."

8.3 It is as yet unclear when we may get an indication of the results of the Spending Review.

8.4 Therefore, I will be presenting the Medium Term Financial Strategy to a subsequent meeting of the Cabinet during the summer term, in order to consider a savings strategy for the future.

9. OTHER CONSIDERATIONS AND VARIOUS ASSESSMENTS

9.1 The current level of general balances, i.e. £7.5m, is considered appropriate and this budget does not recommend the use of the balances which we are retaining 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' fair budget 'deal' 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, the standard assessment has been prepared for the savings schemes. Appendix 8 deals specifically with the duty, and also includes the statutory finance officer's comments on the whole budget from an equality perspective.

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 9.

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 10.

Opinion of local member

Not a local matter

Views of the Statutory Officers

Monitoring Officer:

Although it is a matter for the Full Council to make a final decision on the budget, it is important that the Cabinet gives them a clear recommendation regarding its expenditure plans and the draft budget, and this report achieves that. Once the Council has agreed on the financing sources, then the Cabinet will be responsible for the expenditure and the priorities within that budget.

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 10 to the report, and the actions taken in mitigation, I am of the opinion that the Council's Budget for 2020/21 is robust, sufficient, and achievable.

APPENDICES

- 1 Proposed Budgets
- 2 Bids Summary
- 2a Permanent Revenue Bids
- 2b One-off Revenue Bids
- 2c Capital Bids
- 3 Savings
- 3a Savings List
- 4 Capital
- 5 Dealing with the Schools' Budget in 2020/21
- 6 Council Tax
- 7 Balances
- 8 Equality Impact Assessment
- 9 Wellbeing of Future Generations (Wales) Act 2015
- 10 Robustness of Estimates