

APPENDIX 7

BALANCES

1. Local authorities need a prudent level of 'working capital' balances to maintain adequate cash flow and meet unforeseen expenditure. It is foreseen that the Council will have general balances of £7.5m at the end of this financial year, representing around 1.8% of the Council's gross revenue expenditure.
2. We have noted, on more than one occasion, that due to the turbulent environment we will be facing in the years ahead, that it is appropriate to keep sums in reserve in order to deal with problems that could arise.
3. Nothing has happened in the meantime to change this opinion, with the increase in demand for care services, uncertainty due to Brexit and the Westminster Government's ongoing spending review, mean that the risk continues. Therefore, the need to ensure that we have appropriate balances to deal with any financial shocks is still relevant.
4. Having used £312k of the 2019/20 corporate underspend in order to finance the one-off bids, **it is recommended that we do not use general balances in 2020/21.**
5. **The Council has a number of specific reserves** established to meet specific expenditure needs. These are also part of the Council's budget of course, and have been scrutinised annually. Attention was given to the specific reserves by the Cabinet on 21 May 2019 and also the Audit and Governance Committee on 13 June 2019, when it was approved to transfer £4m from reserves and provisions towards corporate priorities / requirements. I review the level of these reserves continually, and **it is intended to hold another intensive review by May/June 2020**, to consider how much scope there will be for the Council to change its priorities within these reserves.
6. In their report "Meeting the Financial Challenges facing Local Authorities in Wales" (2014), the **Wales Audit Office (WAO) stated** (in paragraph 1.8):

*"Councils can use reserves to help them to balance their budgets where savings plans do not achieve the expected results or where income is less than anticipated. However, **financing recurrent expenditure from reserves would not normally be appropriate.** A prudent level of useable reserves is a key element of financial stability; the minimum appropriate level will vary dependent on an authority's known and potential liabilities and its spending plans. There are signs that a few councils are over-relying on general reserves to deal with budget shortfalls, rather than seeking more sustainable approaches, which often involve making unpopular decisions."*

This message was echoed in a recent feedback meeting with WAO, and they are expected to report soon on Welsh local authorities' financial sustainability and resilience.

7. Also, on 10 January 2020, the Welsh Government issued a statement on local authority reserves, which provides a useful context for our position and shows Gwynedd Council at a reasonable level in the middle of the Welsh authorities' range of usable reserves.

<https://gov.wales/sites/default/files/publications/2020-01/local-authority-reserves-2018-19.pdf>

8. I am convinced that the Council's use of specific funds (the Transformation Fund, etc) to finance one-off requirements (as they arise) is a totally appropriate action, and it is recommended that the Council's balances are not used to balance the 2020/21 budget.
9. Of course, the 2020/21 financial position could have been different. This year, the Council's balances have been a key instrument which allowed us to wait and see the grant settlement situation, before even considering any level of savings above the £2m. The existence of our balances 'bought time' and avoided 'scaremongering' about cuts which were not required for 2020/21. As we were not required to use balances this year to 'bridge' until additional savings schemes were approved and implemented, keeping the balances allows us to use the same logic again for the 2021/22 budget.