

APPENDIX 7

BALANCES

1. Local authorities need a prudent level of 'working capital' to maintain adequate cash flow and meet unforeseen expenditure. It is foreseen that the Council will have general balances of about £8m 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 circumstances 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 continuous increase in demand for care services, the significant challenge of the Covid-19 crisis and uncertainty due to Westminster Government's ongoing comprehensive 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 been able to fund around £1m of the one-off bids within the budget provisions, **it is recommended that £344,500 of balances be used to fund the remainder of the 2021/22 one-off revenue bids.**
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 16 June 2020 and also the Audit and Governance Committee on 28 June 2020, when it was approved to transfer £825k from reserves and provisions to assist the departments that were overspending in 2019/20. I review the level of these reserves continually, and **it is intended to hold another review by May/June 2021**, 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 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."*

7. This message was echoed in recent meetings with Audit Wales, which has reported in October 2020 on the financial sustainability of Welsh local authorities as a result of the Covid-19 pandemic. While Gwynedd Council's usable reserves are in the upper quartile of the range of Welsh local authorities (in terms of the size of their usable reserves), **Audit Wales' opinion is that:**

*"(9) some councils were much better placed than others to weather a financial challenge such as the pandemic. This is most clearly illustrated by the varying levels of usable revenue reserves held by councils" and (18) **that "the level of usable reserves available to a council is one of the key indicators of financial resilience and sustainability"**.*

[Financial Sustainability of Local Government as a Result of the COVID-19 Pandemic \(wao.gov.uk\)](https://www.wao.gov.uk/financial-sustainability-of-local-government-as-a-result-of-the-covid-19-pandemic)

8. I am convinced that the Council's use of balances to fund £344,500 of the 2021/22 one-off revenue bids and the Cabinet use of the Transformation Fund to finance one-off requirements as they arise is a totally appropriate action.
9. Of course, the 2021/22 financial position could have been different. This year, in the midst of a crisis, the Council's balances have been a key instrument which allowed us to wait in order to see the grant settlement situation, before even asking the Council services to identify additional new savings plans. Gwynedd services were able to focus on responding to the Covid-19 crisis, which is different to the situation in some other local authorities.
10. As well as giving us the confidence to act unfettered in the face of the costs of the crisis, the existence of our balances 'bought time' and avoided 'scaremongering' for additional cuts that were not required by 2021/22. As a relatively low proportion of the balances we have had to use this year, we will have kept the bulk of the balances in reserve again, in case they are needed to 'bridge' until additional savings plans have been approved and implemented by the 2022/23 budget.