

REPORT TO THE CABINET

24 November 2015

Cabinet Member: Councillor Peredur Jenkins, Cabinet Member for Resources

Subject: 2016/17 – 2019/20 Financial Strategy

Contact Officer: Dafydd L Edwards, Head of Finance

The decision sought

Decide whether or not any further steps need to be taken in response to the latest position that is becoming apparent.

Budget Projection 2015/16 – 2017/18

1. The Financial Strategy adopted by the Cabinet back in February of this year is based on projections of income and expenditure made at the time, and is summarised as follows:

£m	This year 2015-16	2016-17	2017-18	Total
Unavoidable Additional Spending Needs	6.1	10.2	6.7	23.0
Loss from Government Grant reduction	7.1	3.5	6.1	16.7
Council Tax increase (4.5%, 3.5%, 3.5%)	-2.5	-1.9	-2.0	-6.4
Savings Schemes in the system and approved	-8.7	-2.9	-3.8	-15.4
Gap: use of Balances, Savings Schemes to be found, Service Cuts	2.0	8.9	7.0	17.9

2. During the summer of 2015, a strategy was approved to address this funding gap by –
 - first, maximising the efficiency savings to be achieved;
 - the schools' (£4.3m) savings target, and
 - seeking the public's opinion about possible service cuts worth £7m (as well as considering other cuts in corporate and support services).
3. That strategy addresses the budgetary gap between 2015/16 and 2017/18, while this report revises the basis for those assumptions and attempts to look beyond that period as far as 2020, even though the Welsh Government have not released any indicative grant figures.

Unavoidable Additional Spending Needs 2016/17 – 2019/20

4. Unavoidable commitments for the next four years have been estimated, having considered pressure on services (including several issues in adult care and the waste strategy), inflation (pay and other), national insurance changes, pensions, interest, demography, etc.

	February Estimate	November Estimate	Change
2016/17	£10.2m	£9.4m	- £0.8m
2017/18	£6.7m	£7.5m	+ £0.8m
2018/19	-	£8.1m	-
2019/20	-	£8.1m	-

5. There has been a reduction in the forecast for inflation (pay at 1% instead of 2%, and energy / fuel being negative), but that has been offset by various matters including the Westminster Government's minimum wage requirements (affecting suppliers of services to the Council, as well as the Council as an employer in the medium-term).
6. Spending needs could be significantly greater when final figures are identified, after revising predicted income levels and other matters.
7. However, based on our latest estimates, there was no significant change in the Council's total spending needs for the next two years (2016/17 and 2017/18). Therefore, at this point in time, only the expectations regarding Government grant would lead to a change in the Council's savings strategy.

Loss due to Grant reduction

8. Until we see the results of the UK Government's Spending Review, there is no robust information available regarding funding for local government in Wales for 2016/17 and beyond.
9. The Welsh Government intends to publish their draft budget on 8 December, and the provisional local government settlement on 9 December. However, to allow for 'meaningful scrutiny' at national level, the final settlement will not be announced until 2 March, and voted upon (in Cardiff Bay) on 9 March 2016.
10. On the basis of directives from the Chancellor, George Osborne, and the Treasury, Westminster Government departments are preparing for a range of scenarios between real terms increases in budget (Health) and cuts up to 40%.
11. By making reasonable assumptions about relevant departments' positions, and about the effect of the Barnett formula, etc., it is possible to speculate that there may be a 1.39% increase in the Welsh Government's budget for 2016/17, and 0.55%, 0.89%, and 1.79% increases for subsequent years.
12. Then, there is even more uncertainty regarding how much the Welsh Government will allocate to local government. It is possible to model three cases, where Welsh Government give increasing degrees of 'protection' to Health and other projects in Wales.

13. The 'best' scenario in the following table reflects the situation if the Welsh Government was to provide Health with inflation and treated all other things equally.
14. The 'central' case in the following table is an updated version of our projections from February, while the 'worst' case figures reflect more pessimistic predictions which are prevalent in Welsh local government and currently reported in the press / media.
15. The settlement could be outside the scenarios outlined below, but it is reasonable to assume it will be somewhere between the best and worst scenarios as follows:

Possible scenarios for Gwynedd Grant	2016/17		2017/18		2018/19		2019/20	
	%	£m	%	£m	%	£m	%	£m
Best	-0.28%	-0.5	-1.71%	-2.9	-1.12%	-1.8	0.51%	0.8
Central	-2.00%	-3.4	-3.50%	-5.8	-2.75%	-4.4	-2.75%	-4.3
Worst	-4.00%	-6.7	-5.00%	-8.1	-4.00%	-6.1	-4.00%	-5.9

16. Here, I must note that if there was no reduction in the grant, then Gwynedd Council would not need to make any service cuts for 2016/17 – 2017/18, as our efficiency savings schemes would be sufficient to balance the budget.

The Probable Funding Gap for the “Gwynedd Challenge” period

17. The figures above compare with the February assumptions of loss from grant reduction of - £3.5m in 2016/17 and - £6.1m in 2017/18.
18. Over the two years 2016/17 and 2017/18, through the effect of various grant reductions, on the basis of our assumptions, the funding gap would **change** as follows –

	February Assumptions £m	Best case Scenario £m	Central case Scenario £m	Worst case Scenario £m
2016/17	- 3.5	- 0.5	- 3.4	- 6.7
2017/18	- 6.1	- 2.9	- 5.8	- 8.1
Two Year total	- 9.6	- 3.4	- 9.2	- 14.8
		<u>9.6</u>	<u>9.6</u>	<u>9.6</u>
Difference		<u>6.2</u>	<u>0.4</u>	- <u>5.2</u>

Conclusion

19. Note the £11.4m range between the 'best / worst' situations we have speculated on over the next two years, and that it is possible for the result to be outside our 'best / worst scenarios' too. Uncertainty regarding a sum the magnitude of our 'options to cut quantum' highlights the difficulty in financial planning.
20. However, as noted before, whatever the final grant figure will be, this will not change our ability to find more efficiency savings. Therefore, since our present strategy already includes an attempt to maximise such savings, there is nothing different we can do to deal with any increase in the financial gap other than implementing more cuts.
21. Also, we have identified that the probability of cuts in 2016/17 and 2017/18 has **not** substantially changed from when the current "cuts" strategy commenced.

A Medium Term Financial Plan for 4 years

22. Ideally, the Council would wish to deliver a financial strategy over 4 years. Unfortunately, that is not practical, due to the Welsh Government's intention to provide only a one-year settlement, without any indicative allocations in respect of subsequent years.
23. Hence, it is sensible to complete the current response plan for the next two years, before identifying the additional funding gap to be faced in 2018/19 and 2019/20.

Local member's views

Not relevant

Opinion of the Statutory Officers

Chief Executive:

The report confirms the wisdom of our current strategy of maximising efficiency savings and preparing for possible cuts, and the current 'Gwynedd Challenge' exercise is a key part of this. Of course, from year to year, the Welsh Government's specific settlements will affect the exact financial position. This year, the provisional settlement will not be published until 9 December and the final settlement not until the beginning of March, in the week when the Council has to decide on its budget for the following year. Under these circumstances, and in order to ensure prudent planning, I agree with the advice of the Head of Finance for a strategy for the next two years before beginning to consider the position for 2018-2020.

Monitoring Officer:

Nothing to add from a propriety perspective.

Head of Finance:

I have assisted the Cabinet Member for Resources (Councillor Peredur Jenkins) to prepare this update to the financial strategy. As we expect another substantial grant reduction for 2016/17, it is essential that Members and officers adhere to our existing plans to achieve efficiency savings and to identify / prioritise potential budget cuts.