

CYNGOR GWYNEDD – Report to Cyngor Gwynedd's Cabinet

Title of Item:	<i>Medium Term Financial Plan</i>
Cabinet Member:	<i>Cllr. Huw Wyn Jones, Cabinet Member for Finance and Cllr. Nia Jeffreys, Council Leader</i>
Relevant Officer:	<i>Dewi Morgan, Head of Finance Dafydd Gibbard, Chief Executive</i>
Meeting date:	<i>16 September 2024</i>

1. Decision Sought:

- 1.1 Approval of the Council's Medium Term Financial Plan for the period 2026/27 – 2028/29.
- 1.2 To commission the Chief Executive to establish and lead on a range of measures and work packages, as outlined in part 4.7 of this report, to pre-prepare for dealing with the significant gap in our budget over the next three years.

2. The reason why Cabinet needs to make the decision:

- 2.1 The Medium-Term Financial Plan (MTFP) sets out the financial outlook for the 3-year period commencing on 1 April 2026.
- 2.2 These estimates are based on the latest available forecasts about the change in income the Council will receive over the period (through Government Grant and Council Tax), and the additional spending requirements over the same period.
- 2.3 Cabinet's adoption of the Medium-Term Financial Plan will allow the Council to consider the work needed to create detailed plans to address the financial gap envisaged for 2026/27 – 2028/29, and to inform the work needed.
- 2.4 The Council is not expected to find out what the Government Grant for 2026/27 will be until at least November 2025, but with the forecast that the Cabinet Secretary for Finance and the Welsh Language intends to give a 2% increase on all Government budget expenditure headings for 2026/37 we can expect an annual increase in our financial settlement of around 1.5%, especially given the potential instability that may result from the Senedd elections in May 2026.
- 2.5 There is, therefore, a significant risk of severe financial instability from not taking early and decisive action to consider the situation and take remedial action.

3. Introduction and Rationale

Background/ Introduction

- 3.1 The Medium-Term Financial Plan plays a vital role in supporting the Council's resilience, and long-term financial sustainability, by providing a strategic outlook beyond current year budget considerations. It is a valuable tool for making informed decisions and planning for the future.
- 3.2 A draft Medium Term Financial Plan for the 3 years commencing on 1 April 2026 is included in the appendix. The MTFP is a live document –the budget is renewed annually with a very detailed income and expenditure plan, but this plan is a high-level assessment of the Council's financial needs for three years that will be constantly updated as new information becomes available. It will be updated for changes in national and local funding assumptions, income projections, spending pressures and any changes in savings plans.
- 3.3 The previous version of the MTFP was approved in May 2024.
- 3.4 Any review or renewal of the Council's Plan in the coming years will also be reflected, incorporating any resulting financial changes.
- 3.5 Updates to the Plan are expected to be presented to Cabinet regularly as financial forecasts change.

Rationale and justification for recommending the decision

- 3.6 The purpose of the Medium-Term Financial Plan (MTFP) is to bring together all known factors affecting the Council's financial position and financial sustainability over the medium term. The MTFP provides a holistic view of the financial landscape beyond the current budget year.
- 3.7 The MTFP balances the financial implications of objectives and policies against resource constraints. It helps the Council, Cabinet, and anyone making decisions in accordance with the Delegation Plan, to understand the trade-offs between financial goals and available resources.
- 3.8 The table on the next page shows forecasts that the Council, without interference from it will face the following fiscal gaps in the budget during the years under review:
 - 2026/27 gap of £14.9 million
 - 2027/28: gap of £12.3 million
 - 2028/29: gap of £12.8 million

3.9 That is, a cumulative gap of £40 million is projected over three years.

	July 2024 Estimate		
	2026/27	2027/28	2028/29
	£m	£m	£m
Pressure			
Pay Inflation	9.3	8	8.3
Price Inflation	4.7	3.9	4
Levies	1	0.5	0.5
Reduction in Employers Pension Contribution	-3	0	0
Pressure / Demand	8	5	5
Total Pressure	20	17.4	17.8
Funding Changes			
Council Tax – change in taxbase	1.1	1.2	1.2
Grant Settlement	3.7	3.8	3.8
Total of Funding Changes	4.8	5	5
Savings to be realised	0.3	0.1	0
Funding and Savings Total	5.1	5.1	5
Gap	14.9	12.3	12.8

3.10 Details of the information contained in the table, and detailed justifications for the figures used, can be found in the MTFP.

- 3.11 It should be noted that the table above does not show the best possible or worst-case scenario, but the most likely scenario based on the information available to us.
- 3.12 The analysis also does not consider any increase in the Council Tax rate over the next three years. Obviously, when formulating steps to close the gap, it will be required to consider increasing the tax.
- 3.13 The stringent financial constraints which the Council will face over the next few years will inevitably affect its ability to realise its objectives and provide all the services we desire on behalf of the people of Gwynedd. In that regard, an initial step would be to adopt the Medium-Term Financial Plan contained in the appendix. The Plan identifies the funding gap and part 4 below recommends steps that could be considered to pursue balanced budgets in 2026/27, 2027/28 and 2028/29.
- 3.14 When it is possible to put monetary values to the implementation steps, the MTFP will be updated in order to achieve the aim of the MTFP to provide a clear and concise view of future sustainability so that decisions can be informed to address long-term funding gaps, ensuring the Council's financial health over time.

4. Responding to the situation we face in order to set a balanced budget in 2026/27

- 4.1 As we now know that we will face a shortfall of around £40 million over the next three years, it is vital to consider how to respond to that and focus first on the 2026/27 budget.
- 4.2 A number of elements in the Medium Term Financial Plan are still unclear at the moment of course. Wage increases may be less than forecast, the scale of inflation may fall and there may not be a need to provide as much for pressure on services.
- 4.3 Last year we received extra funding as the Welsh Government added a "floor" mechanism to the revenue budget allocation which meant we received £1.6 million late in the day. This money was used last year to fund "one-off" issues, which are issues we don't know whether or not they will need to be funded permanently at the time. This money will therefore be available to us when considering permanent spending requirements for 2026/27 onwards. That's a bit of help.
- 4.4 The tendency by the Welsh Government to provide additional funding during the year, for certain areas under pressure, has existed for some years now. Any additional money to recognise pressures on services is welcome but releasing that money in advance at the start of the year as part of the settlement would be much more beneficial to Local Authorities. We can assume that some of the same amount of money will come in the form of a revenue grant in the next year as well, although there will be no certainty of that. We will need to do detailed work and further discussion with the Government

before establishing whether or not we feel comfortable including a figure for such funding when setting the 2026/27 budget.

4.5 In compiling this report last year we confirmed the intention to carry out some work tasks that could help us close the financial gap we were facing at the time. We accomplished most of these but some have been tasks that needed more time to complete and others are tasks that we can look at annually. In particular:

- CIPFA review of potential opportunities – work has now been completed, and we will need to consider the conclusions over the coming weeks
- Revisit corporate headings in the budget e.g. Council Tax Reduction Scheme
- Corporate review fees and income
- Care spending review by WLGA experts – Work done and conclusions needed to be considered
- Review of care commissioning arrangements
- School transport strategic review
- Opportunities to collaborate with other authorities e.g. Back office issues

4.6 However, it is clear that our main options for setting an equal budget will be either a higher than current Welsh Government settlement, delivering savings/cuts or an increase in Council tax.

The settlement

4.7 This year, a lack of clarity on behalf of the Government means planning ahead on the basis of the likely settlement is even more difficult for 2026/27 than usual. On the one hand, we hear that an addition to the public sector budget by the Westminster government last year is a first step towards correcting the impact of a decade-plus lack of investment. On the other hand, we are warned that the Government in Cardiff cannot increase public spending under the current economic circumstances.

4.8 We are also warned that there is a possibility that the Welsh Government will set what is referred to as a "rollover budget" for 26/27, which is to continue with this year's budget with a small addition towards inflation only and no consideration/recognition towards the other significant costs facing Local Government. That national average addition is estimated to be around 2% (therefore likely to be around 1.5% for Gwynedd under the allocation formula) and therefore that would be a budget cut in real terms unless the inflation rate falls sharply before April 2026, given that today's inflation rate is 3.8%.

- 4.9 Attached to the warning of a "rollover budget", there is an acknowledgement from the Government that this would leave around £400 million unallocated from their revenue coffers, and that decisions on that funding will take place after the Senedd Election in May. That will be after we set our own revenue budget and therefore far too late in trying to protect essential services. There is also a possibility that none of this £400 million would be allocated to local government.
- 4.10 Clarity will come at the level of our Settlement by November, which is much sooner than usual. A further increase in the 1% settlement for us in Gwynedd would result in around £2.5 million of additional revenue towards our gap.

Savings/Cuts

- 4.11 Over the last 15 years we have had to squeeze budgets and find savings by inviting proposals from Departments and prioritising the schemes that had the least impact on the residents of Gwynedd.
- 4.12 That led to cuts here and there but largely continuing to try to achieve as much as we could, for everyone.
- 4.13 The savings and cuts regime has been effective for many years identifying £74 million over a period of around 15 years, but we have now reached a point where we cannot squeeze more of it without cutting services that would have a clear and direct impact on the residents of Gwynedd. Certainly, the regime does not want to allow us to close the gap facing us over the next three years.
- 4.14 The resulting effect of the financial squeeze over recent years is that services are under increasing pressure, with budget shortfalls having led to unavoidable overspending in many areas. A lack of ability to provide a reasonable budget was largely responsible for this overspending, i.e. more demand for a service than could be achieved within the available budget.
- 4.15 We know that rigorous research such as Llechen Lân shows that demand for some services e.g. aged care, childcare, Additional Learning Needs, school transport and homelessness will continue to increase. Last year a significant budget had to be added to some of these areas in the hope that it will bring the budget closer to the level needed to avoid overspending.
- 4.16 We will be keeping a close eye on the impact of this this year, but even if our overspend this year is less than in recent years, we already know that next year demand will be higher again in some areas and that our spending will therefore need to be increased, not reduced.

- 4.17 Having said that, in order to make sure that we do not miss any opportunities, we started the process last year of looking at all expenditure lines in the Council's budgets in case we miss any opportunity, and there are plans to complete that work this year.
- 4.18 Another significant component of the Council's compound expenditure is the budget allocated to schools. Of the Council's total revenue expenditure of £361 million, £125 million is allocated to maintain our school system, which is 35% of all our spending.
- 4.19 Protecting this budget from any cuts increases the pressure to have to cut the budgets of the rest of our services. If we were to try to find our gap of £14.9 million in 2026/27 from cuts alone, and protect the schools budget and the Care budget (as demand in care increases annually and therefore cannot be cut), it would mean cutting 13% in all other departments resulting in a very noticeable and visible impact on services in our communities.
- 4.20 To date Gwynedd has been able to protect our schools from cuts of the same scale that have occurred in many other neighbouring local authorities. There was a 2.34% (£1.97 million) cut between the 2023/24 and 2024/25 financial years (Special schools excluded) and that was a significant pressure on a regime that was already facing financial challenges. No further cuts were implemented to school's budgets in 2025/26.
- 4.21 A further 1% cut in school budgets (excluding Special Schools) would contribute around £950,000 towards our gap.

Council Tax

- 4.22 Every year we try to protect the residents of Gwynedd from an increase in Council tax and that is even more important in national economic circumstances that are challenging for everyone. We try to support people to be able to live prosperous lives in our communities and so we always try to turn all the stones before considering raising the tax.
- 4.23 However, the disastrous financial situation that has faced us and every other Council in Wales over the last few years has meant that all Authorities have had to increase the tax much more than they would have liked.
- 4.24 From trying to protect the vulnerable people in our communities from service cuts that are vital to their well-being, and if additional funding is not provided by the Welsh Government, all Councils will be pushed to significantly increase the tax once again for 2026/27.
- 4.25 In Gwynedd, increasing the tax by 1% results in additional revenue of around £1 million towards our financial gap.

Recommendation for 2026/27

- 4.26 All of the above factors and the lack of clarity as to the Welsh Government's intentions in setting the 26/27 budget make it very challenging for us to be able to put in place a robust plan for dealing with the 2026/27 gap at this time. Hopefully there will be more clarity by looking at the following years, but there is a risk this year of rushing to try to achieve savage cuts in order to try to close the gap. Cuts create a direct impact on County residents and it is possible that, if there were additional allocations from the Government after the May 2026 election, we would not have had to cut those services after all.
- 4.27 That said, we can't leave a gap as significant as £14.9 million without addressing it robustly. Obviously, no possible additional allocation following the election will be anywhere close to an amount of this magnitude and so planning will have to be made to greet the bulk of it and use one-off reserve funds for the rest.
- 4.28 In doing this we will have to be extremely careful that we do not leave a significant amount of the current gap of £14.9 million unmet with robust and lasting plans. That would not only lead to a sharp reduction in our reserves (and consequently create a financial viability risk) but also if additional funding does not come after the election then in the following year (2027/28) our financial gap would be so much higher e.g. if we were planning to set a balanced budget this year using £5 million of one-off reserves, it would mean that our gap in 2027/28 would increase from the current £12.3 million to £17.3 million and create a significant financial viability risk.
- 4.29 We will therefore continue to work on the options highlighted above and adjust our plan for 2026/27 as figures are confirmed.

5. Preparing for 2027/28 and 2028/29

- 5.1 Looking at the subsequent two years of the Medium-Term Financial Plan we see that there are significant gaps of £12.3 million and £12.8 million, totalling £25.1 million over the two years based on the information we currently have.
- 5.2 The Welsh Government has been discussing setting three-year budgets for some years now and promises have recently been made that this will happen this year. So far we haven't seen any signs that that's going to happen. Clarity would at least give us the opportunity to plan ahead rather than having to make hasty decisions annually without knowing what will face us the following year.
- 5.3 At the moment therefore we cannot give a firm plan for closing the gap and it will very much depend on the level of settlement, followed by the usual considerations highlighted above when looking at a combination of cuts and Council tax increases.

- 5.4 It is clear that we will have to plan for significant cuts in these years unless there is a change to the national situation. If we knew better what kind of scale of cuts will be needed that would help to inform the process of detecting cuts, but that is not the situation and therefore the options will have to be considered immediately after the 2026/27 budget is set.
- 5.5 Over time there is a possibility that there will be other sources that we may/will have to consider as well.
- 5.6 We currently aim to earmark income from the Council Tax Premium for reinvestment in housing, either on schemes in our Housing Action Plan or to welcome the significant increase in spending on services to support the homeless. This was the Council's decision in setting the Premium but if the financial challenges persist then Cabinet would be able to consider using an element of the income to fund overall expenditure.
- 5.7 Similarly, we now receive income from plastic container tax through the Westminster Government. The purpose of the income is to contribute towards the cost of dealing with plastic container waste, in particular to improve our waste infrastructure. However, technically there is no need to do so and Cabinet can direct this income towards general expenditure funding if necessary. It is currently unclear if that income will be permanent or how much exactly the amount received will be. The amount for this year is in the region of £3.7 million.
- 5.8 We have taken advantage of opportunities during the financial year to replenish our Transformation Fund. This is the fund used to fund new spending that strikes us, or for changing the way we work or achieving things that have been identified as a priority in the Council's Plan.
- 5.9 This year, we have also invited specific applications for Invest to Save projects from Council Departments. While the flexibility for funding such schemes is almost ongoing, we have this year given specific guidance to departments to try to identify such opportunities, focusing on issues that could lead to revenue savings within the next 2/3 years. Any such savings could be used as a direct contribution towards reducing our revenue gap rather than being used to replenish the transformation fund.
- 5.10 Once we have established a robust plan for 2026/27, we will work further on the above milestones in order to plan for the next two years. It is clear that local government continues to face a financial squeeze similar to that of recent years and there is no indication that the situation will change in the near future.

6. Comments from Statutory Officers

6.1 Chief Finance Officer

I have worked with the Cabinet Member and the Chief Executive to prepare this report and confirm the contents.

6.2 Monitoring Officer

Responding to the situation highlighted involves proactive work to plan and prepare recognizing that elements of underlying uncertainty exist. . I welcome the commission for the Chief Executive to commence this work. This will also provide an opportunity to consider the potential implications and respond together with assessments to find solutions.

Appendices:

Medium-Term Financial Plan 2026/27 – 2028/29