

## **REPORT TO THE CABINET**

13 JANUARY 2015

**Cabinet Member:** COUNCILLOR PEREDUR JENKINS, RESOURCES CABINET MEMBER

**Subject:** **2015/16 BUDGET: DEALING WITH THE FINANCIAL GAP**

**Contact Officer:** DAFYDD L EDWARDS, HEAD OF FINANCE

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### **Decision sought / Purpose of the report**

1. The Cabinet is asked to consider a combination of the following steps in order to close the gap in the 2015/16 budget:
    - Increase Council Tax above 3.5%
    - Implement the Highways and Municipal Strategic Review
    - Ensure Savings from Schools devolved budgets
    - Ask the Departments to accelerate their efficiency savings plans
    - Use of Balances for 2015/16
    - Timely implement the Cuts Strategy
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### **Introduction/ Background**

2. At its meeting on 16 September, the Cabinet considered the direction for addressing the funding gap we will be facing over the coming years and agreed on some key options for coping with the gap. The intention of this report is to identify where we are at regarding establishing a balanced budget in 2015/16 (despite the financial challenge from the settlement) and to set out the options that remain to be made and the next steps in the process.
3. At the Cabinet meeting of 16 September, it was noted that if the grant from the Welsh Government to local government decreased by 4.5% (instead of the 1.5% indicative figure), then the financial gap for Gwynedd Council for 2015/16 would increase from £9.6m to £13.1m.
4. As each week passes, the figures change as new information comes to light, but by now I believe that we have most of the relevant figures for 2015/16 so that we can come to quite a robust conclusion on the viability of our plan for that year. Some elements still remain where the information is not robust enough to be absolutely certain, but for the purposes of establishing the strategy, there is sufficient assurance to come to the following planning conclusions.

## The 2015/16 Budget Gap

5. The following factors have contributed towards the £13.7m gap as seen by now:

### Variations since our assumptions for 2015/16 in February 2014

	£'000	£'000
<b>Unfavourable:</b>		
The Welsh Government's unfavourable settlement	2,700	
Higher than expected capital cost	200	
Transfers in	300	
Other (reduction in income, etc)	200	
Negative Factors Sub-Total:		3,400
<b>Favourable:</b>		
Lower Pay Inflation	900	
Lower Teachers Pay Inflation, net of higher pension cost	200	
Lower Prices Inflation	500	
Salary Increment net of Turnover	300	
No increase in Precepts	200	
Higher Interest Received	200	
Lower increase in Demography	100	
Council Tax Assistance Scheme – lower contribution	200	
Waste Strategy – lower demand	900	
Positive Factors Sub-Total:		<u>3,500</u>
Net Difference:		100
Deficit anticipated by 2015/16 in February:		<u>13,800</u>
Deficit anticipated by 2015/16 in December:		<u>13,700</u>

(the above estimates are to the nearest £100,000, as they are for strategic planning purposes)

## Closing the Gap

6. On the basis of our previous policies and latest information, including final settlement of -4.0%, a summary of the situation as it appears at the moment is noted below, and some difficult decisions are needed to close the gap.

	£'000
Deficit anticipated	13,700
<u>Less:</u> Efficiency savings planned by 2015/16	6,170
Increase in Council Tax @ 3.5%	<u>1,930</u>
Balance to be discovered:	<u>5,600</u>

## **Long-term Strategy**

7. In the mid-term, the savings / cuts strategy will need to continue for 2014/15 - 2017/18, and a firm timetable to be set for it. Although there have been several variances within the net total, the gap to be found over the period between this year and 2017/18 continues to be around £34m. Several issues, in particular the 2016/17 and 2017/18 grant settlement, could influence that again. For now, I suggest we continue to work with the previously agreed targets.

## **Plan for 2015/16**

8. It can be seen therefore that we need to close a gap of £5.6m in 2015/16, and that is if we can limit the unavoidable bids to £1m, despite the pressure that comes through from the services. Also, the efficiency savings figure of £6.17m includes realising the total presented now for 2015/16. Assuming that the current efficiency savings plans already include considerations such as charging fees, etc, there are few options to close the gap of £5.6m and it appears that the most feasible ones to implement are -

- Increase Council Tax above 3.5%;
- Implement the strategic review of the Highways and Municipal Department;
- Reduce the schools' budget;
- Accelerate some departmental efficiency savings plans from 2016/17 to 2015/16;
- Implement a programme of service cuts;
- Use balances to bridge the cuts regime.

## **Increasing Council Tax**

9. Each 0.1% increase of Council Tax produces around £56,000.

## **Highways Strategic Review**

10. The matters under the attention of the Highways Strategic Review have not been included with the other efficiency savings plans in the above total (£6.17m).
11. The review will be sure to suggest that an element of the road maintenance budget could be reduced without having an immediate adverse effect, but until the Cabinet has seen the report and made a decision, it cannot be sure what amount should be taken into consideration.

## **Reduce the schools' budget**

12. The Schools Budget Forum has commissioned work by representatives of headteachers, governors and members to identify how £4.3m could be saved over 2015/16 - 2017/18. It could be expected that the Forum / Working Group identifies a contribution of savings in 2015/16. The Welsh Government has prescribed a "promise" that schools budgets will increase by 0.6% in 2015/16, but an increase for higher pension contributions and inflation will more than satisfy the "promise".

## **Accelerate Savings Plans**

13. Discussions are underway with several department heads to identify efficiency savings plans that could be implemented in 2015/16 instead of 2016/17.

## **Use of Balances**

14. General balances is a one-off resource, therefore I do not recommend their continued use instead of savings / cuts. However, where there are plans to cut, one-off balances could be used in order to bridge and allow time to prioritise inclusively.

## **Recommendation**

15. **The Cabinet is asked to consider and offer direction on a combination of steps in order to close the gap in the 2015/16 budget, noting specifically if there are any elements that are matters which should not be considered.**

## **Next steps and timetable**

16. Clearly, after ensuring that the plan is viable for 2015/16, it will need to be ensured that the Council accepts such a strategy, and it is intended to report in detail to the Cabinet on the strategy as follows:
  - Formal Cabinet 13 January 2015
  - Members Seminars:
    - Pwllheli** - Wednesday 4 February 2015 2:00pm
    - Penrhyndeudraeth** - Thursday 5 February 2015 10:00am
    - Dolgellau** - Friday 6 February 2015 10:00am
    - Caernarfon** - Wednesday 11 February 2015 10:00am
  - Audit Committee / Cabinet on 17/19 February 2015 to discuss the final options
  - Full Council 5 March 2015

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**Local member's views**

Not a local matter.

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**Opinion of the Statutory Officers****Chief Executive:**

This Council has received external recognition for its prudent long term financial planning. However, the Welsh Government's policy changes has made that financial planning more difficult than ever in terms of the size of the challenge, the insufficient notice for responding to it and also the uncertainty of some of the information in the settlement.

In the face of the challenge ahead of us, the Cabinet, and the full Council in due course, must look at various options for addressing the financial gap in the next financial year and the report presented here outlines the options available. Obviously, some are less desirable than others, but the financial challenge means that such decisions must be faced, given that any failure to make a difficult decision today will make the decisions to come even more difficult. Bearing in mind the type of decisions that will have to be faced in due course regarding cutting frontline services will be even more challenging.

Doubtless it will be a combination of the issues identified in the report that will be the result of the discussion. What the Council cannot do is not confront these decisions.

**Monitoring Officer:**

No comments to add from a propriety perspective.

**Head of Finance:**

I have collaborated with the Cabinet Member in the preparation of this report and I confirm the content.

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**Appendices**

None