

APPENDIX 8

MEDIUM TERM PLAN TO ADDRESS THE 2019/20 - 2021/22 FUNDING GAP

1. For a number of years, whilst establishing its budget, Gwynedd Council has been planning ahead to prepare for what might be on the horizon. This has paid dividends, and in fact this is why we have been able to use £2.48m of 'Gwynedd Challenge' savings to balance the 2019/20 budget. Not all Councils are in a position to be able to avoid cutting school budgets, raising tax 9%, etc. this year.
2. In order to continue on this course, in addition to establishing a budget for 2019/20, an effort has also been made to project the financial position for the following two years, so that we can set the 2019/20 position in its wider context and plan how we are going to meet the challenges ahead.
3. Since determining the Financial Strategy 2018/19 - 2020/21 in February / March 2018, detailed work to reassess likely budgetary commitments and assess a range of possibilities, has been carried out. In order to identify the financial challenge to the Council, further to thorough research, a range of assumptions were identified for the Government's grant 'settlement' level and the spending requirements of the Council's services, in order to provide likely financial scenarios for 2019/20 - 2021/22. These financial scenarios are presented to the Cabinet / Council in the form of a fan chart ("funnel of expectations") in order to identify the likely need for savings (or 'funding gap') to 2021/22.

Government's Grant Assumptions for 2020/21 and beyond

4. In projecting, the most uncertain figure is the grant figure that we will receive from the Welsh Government from 2020/21 onwards. As the central grant 'settlement' funds 72% of the Council's net budget, this element is key in trying to project the financial position.
5. A combination of economic and political factors determine the amount of grant we will receive - the state of the economy, spending and taxation policies, and the UK and Welsh Governments' prioritisation selections. In order to update the projection of what might happen, we have used the latest information available to us now, including the projected total UK public spending in the Chancellor's latest Budget.
6. The UK Government is going to conduct a Spending Review during 2019, which is a fundamental factor that could significantly change the position. This will determine how the total UK public spending will be allocated between various departments (and thus, how much the Welsh Government will receive through the implementation of the "Barnett formula"). It's probably superfluous to add that there's an extra layer of uncertainty regarding the impact of 'Brexit' on the economy, and consequently, how much money will be available to spend on public services.

7. Despite the fact that so many economic and political factors are uncertain, the Council must plan prudently in the meantime, for a range of possible scenarios. In order to model how much may be allocated to local government in Wales, for the projections in this report we have made reasonable assumptions about the positions of relevant UK Government departments, the impact of the Barnett formula, the income the Welsh Government will get from the new devolved taxes, and the Welsh Government's prioritisation (how much 'protection' will be given to Health and other projects).
8. Regarding this last factor, as we don't have any definite information about the Welsh Government's intentions, we have had to assume that they will continue with the same type of funding direction seen over recent years (i.e. giving less of an increase to local government compared to the Health Service and various other spending areas under Government care). If they changed this policy so that services are more equally funded, we would need a lot less further savings in 2020/21 and 2021/22.

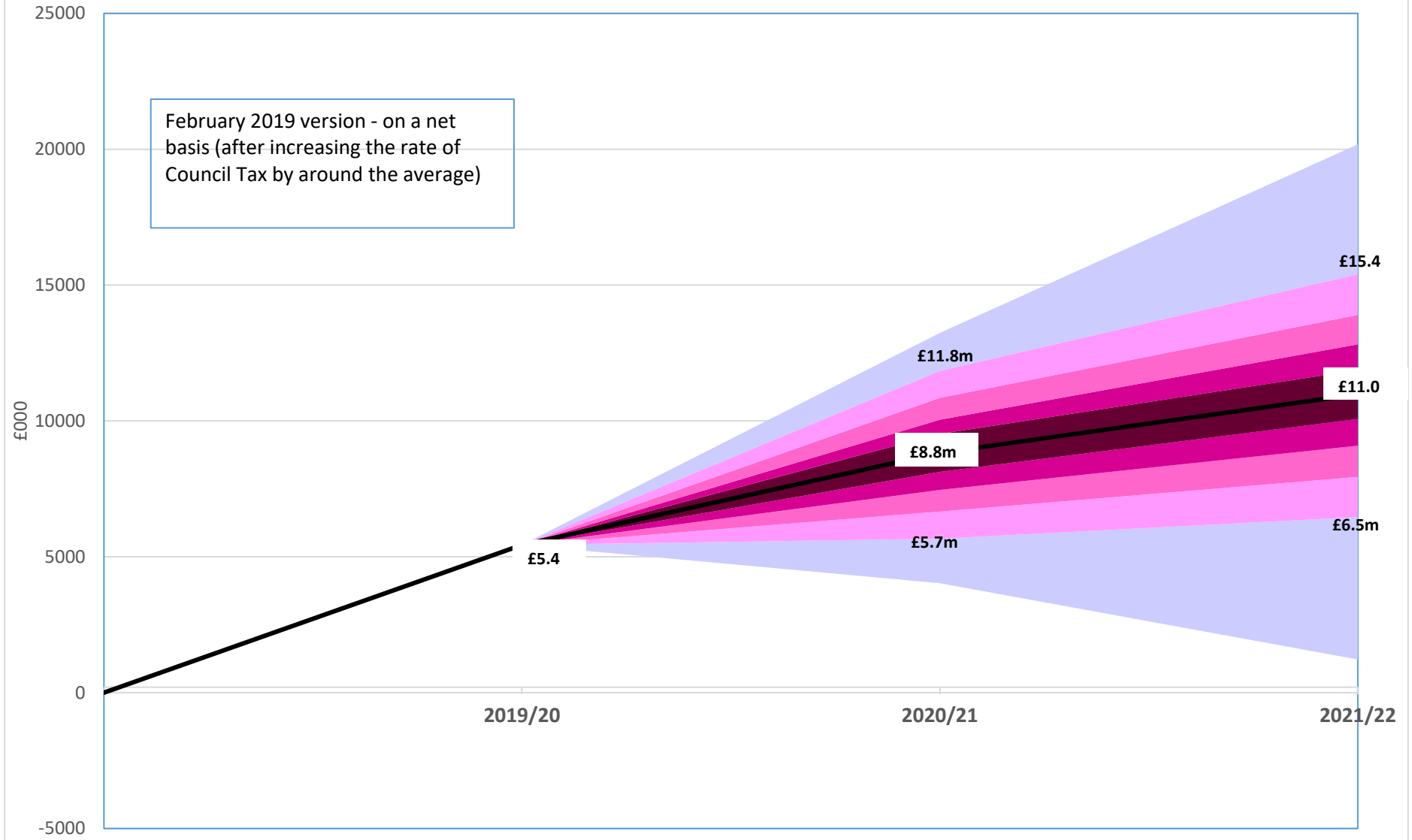
The Council's Expenditure Requirements

9. The most recent financial information about the Council's spending requirements for the 2019/20 budget has been prepared, based on 'true inflation' (specific levels of inflation on pay and other budgets) and relevant trends, together with the 'pressure on services', including demographics (pupil numbers statistics and the number of older people) and bids for unavoidable growth in expenditure, net of possible adjustments to minimize the requirement on the budget.
10. We have reviewed our pay inflation and other inflation forecasts, and reviewed the forecasted demand for services. Of course, the basis of these projections is less reliable when forecasting further into the future.

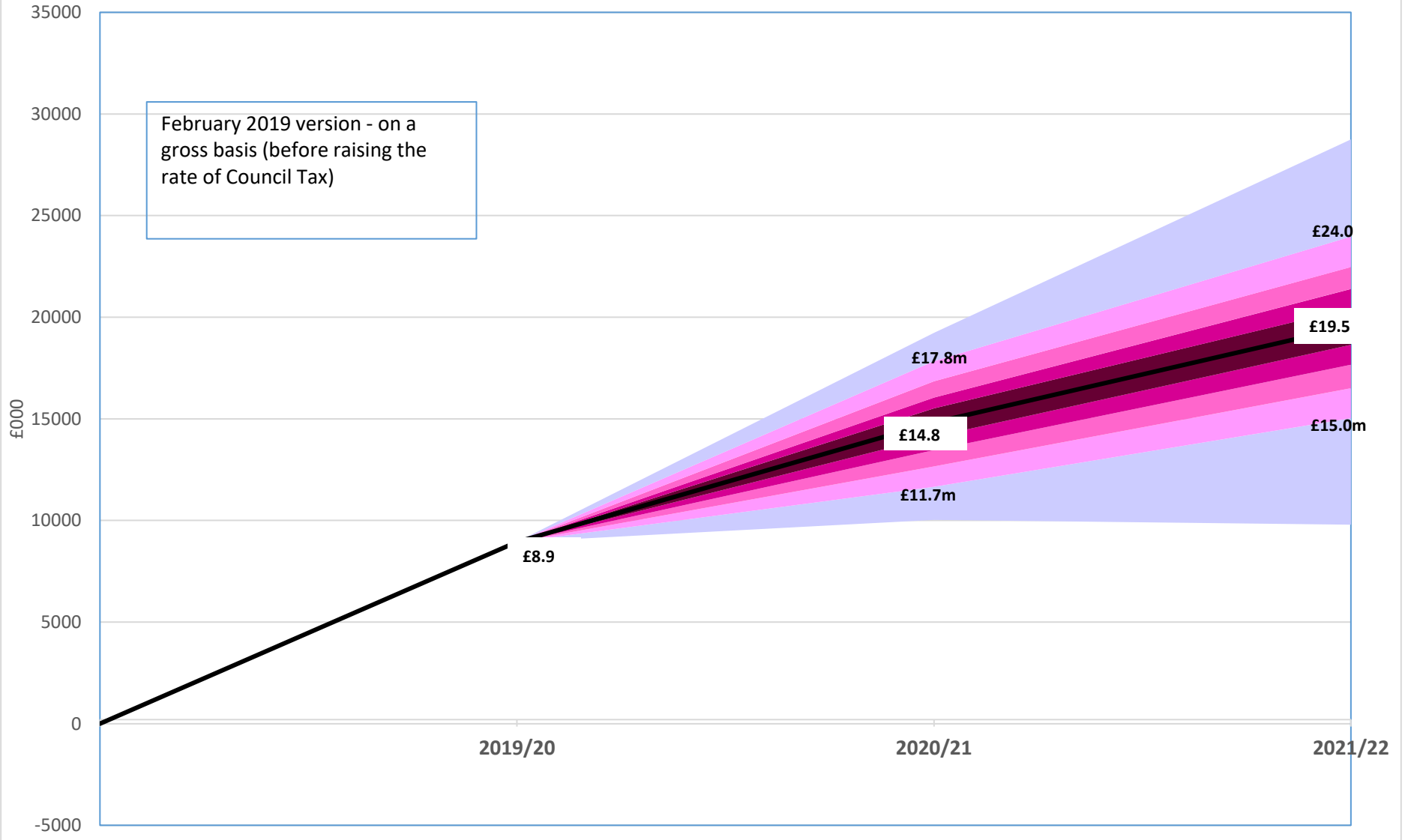
Probable Scenarios – the need for savings

11. Final figures are in place for 2019/20, and it appears that the budget may be balanced by harvesting £ 5.4m savings plus a 5.5% increase in the level of Council Tax – which will be around the average level for local authorities in Wales, as mentioned in the assumptions of the previous medium term financial plan.
12. The fan chart below is presented for the next three years (2019/20 - 2021/22) creating a realistic and prudent picture of what could hit us. The "funnel of expectations" fan chart shows a combination of the possible scenarios, showing results in 10% bands.
13. Local authorities tend to declare their gross 'funding gap', before raising the rate of Council Tax. The first 'funding gap' calculated here is a net gap, which shows how much savings the Council will need to achieve in order to balance the budget after raising Tax by around the average increase. Then, the second fan chart shows the gross gap for comparison with other local authorities.

Gwynedd Council possible funding gap to 2021/22



Gwynedd Council possible funding gap to 2021/22



Savings Strategy 2020/21 and 2021/22

14. There could be a significant challenge ahead of the Council over the 2 years 2020/21 and 2021/22. See from the net gap fan chart that a strategy may be required to find a potential total of up to £10m of additional savings by 2020/21 and 2021/22.
15. With uncertainty arising from the Westminster Government Spending Review, the actual result could be outside our 'best / worst scenarios' on the chart. However, if the 'central' case happens, £3.4m of additional savings would be required by 2020/21 and a further £2.2m by 2021/22 (totalling £5.6m), while an element of the 2019/20 schemes' savings (possibly up to £4.2m) would be available for 2020/21 and 2021/22. Disregarding the 10% most peripheral results, the total gap for the two years can range between £1.1m and £10m.
16. While our arrangements should aim to be flexible enough to deliver up to £10m of savings, after the 2019/20 savings strategy experience, we know how challenging it was to identify less than half of that amount of savings. Cabinet members have considered the impact on services for the people of Gwynedd and see that the line where no further cuts can be made is approaching.
17. We've concluded that the general picture appears to be serious for many Welsh local authorities, facing considerable pressure this year, as their financial situation becomes more vulnerable. Some councils have ventured last year and tested that by now there is no 5% cap on the Council Tax increase, but remember that an additional 5% tax increase would only bring an additional £3.6m to the Council's coffers. That amount would not meet the Council's inflation, while a tax increase would put pressure on the people of Gwynedd.
18. Ideally, the Council would like to implement a 4 or 5 year financial strategy. Unfortunately, that is totally impracticable, as the Welsh Government has only provided a single year settlement without an indicative figure for the following year (understandably perhaps, in the face of national financial uncertainty due to the UK Government's Spending Review during 2019, etc.).

Medium Term Financial Plan for 3 years

19. Therefore, it is sensible to deal with the 2019/20 budget now, and continue with the savings strategy to respond in more detail by the following two years (2020/21 and 2021/22) when we will have identified the relevant funding gap with more certainty.
20. Meanwhile, while **aiming to be flexible enough to be able to achieve up to £5.6m further savings** (the central case of the forecasts) **over the two years 2020/21 and 2021/22, whilst ensuring that all efficiency options are identified**, it must be recognized that this will be extremely challenging and **the Welsh Government should be urged to provide an appropriate grant settlement** for 2020/21 and beyond.
21. Within this regime, we will continue to implement **consistent principles in considering an increase in Council Tax close to the Welsh local authorities' average increase, maximizing the efficiency savings that can be realized** (in order to avoid further cuts), **and implement cuts only as necessary**, in order to meet the remaining balance of the funding gap.