

GWYNEDD COUNCIL CABINET



Report to the Cabinet

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| Date of Meeting: | 23 July 2019 |
| Cabinet Member: | Councillor Ioan Thomas, Cabinet Member for Finance |
| Contact Officer: | Dilwyn Williams, Chief Executive |
| Item Title: | Coping with the Financial Situation in 2020-21 |

Decision Sought

Subject to the condition noted in paragraph 15, in order to be in a position to cope with the financial situation in 2020-21, that the Cabinet adopts Option 3, and requests each department to find their share of the £2m needed to address the minimum resource deficit we are likely to face due to inflation, and to ask the Scrutiny Committees to scrutinise these proposals in the Autumn.

Whilst reporting, departments should also report on how they intend to cope with any lack of funding needed to address any deficits in their savings plans.

Background

1. We must consider how we are going to cope with the financial situation in 2020/21, as it will take some time to prepare.
2. Cabinet members will recall last year, that even though we dealt with the financial problem in a relatively short period of time, the preparatory work started in May. Therefore the sooner we start thinking about it, the better.
3. This of course is in the context of that which has been happening in the last 12 years where grants received from Welsh Government and the Council Tax increase has been insufficient to pay the cost of inflation, which has led to a situation whereby we have had to make substantial savings.
4. The illustration in Appendix 1 reflects the situation over the last 12 years.

What will the 2020/21 financial situation be?

5. This is the question that makes planning so difficult.

6. In his report on this year's financial strategy, the Head of Finance included a funnel of expectations (copy attached at Appendix 2), where the central line indicated that after an assumed Council Tax increase of 3.5% we could be faced with an additional funding gap of £3.4m in 2020/21.
7. Despite the fact that the Head of Finance does not know what the pay agreement will be, nor the level of grant for 2020/21 (which greatly restricts his ability to be able to give any certainty to the situation), he and his staff have considered two possible scenarios – an optimistic scenario which could be realised and a second taking a more pessimistic slant.
8. We know of course that the arrangements for finding savings in 2019/20 also identified savings for 2020/21 and 2021/22.
9. Taking these into consideration, one scenario on the basis of the “optimistic” assumption for 2020/21 is that we will receive a 2% grant increase to meet any wage increase awarded. Combining this with an increase of 3.5% in Council Tax will lead to a savings gap of about £1.7m.
10. We can easily illustrate a scenario whereby we do not receive a grant increase at all, and the wage increase being slightly higher. On this basis (i.e. the pessimistic slant) the financial gap could be as much as £7.3m.
11. On the basis that we should therefore plan for anything between £1.7m and £7.3m, it appears to me that there are three options on how to deal with the probable financial situation in 2020/21, namely:-

- **Option 1** – Start on the process of finding comprehensive savings in order to address the worst situation of £7.3m;

[Advantage = start now in the hope that some additional funds will be available towards mid 2020/21. Disadvantage = Causing possible needless alarm; No break from the “cut” agenda with services tiring. Old systems coming to the end of their “useful life”]

- **Option 2** – Accept now that we must meet the £1.7m gap in the optimistic scenario by increasing the Council Tax by 5% again, which would to all intents and purposes meet the residual gap, and by using balances to meet with any gap above the optimistic situation so as to give us time to find a permanent solution.

[Advantage = Address the “hopeful” situation; A way of coping with a possible pessimistic situation. Break for services. Disadvantage = Plenty of balances to

sustain a pessimistic situation is going to be challenging; A 5% increase is going to unpopular/unacceptable.

- **Option 3** – Plan to meet the gap of £1.7m in the optimistic scenario by sharing this sum between all departments (and schools), and noting that it is an inflation contribution, and by using balances and/or a higher Council Tax increase to meet the gap above the optimistic situation so as to give us time to find a permanent solution;

[Advantage = Address the “hopeful” situation; A way of coping with the pessimistic situation. Not having to consider an increase of 5% unless we deal with the pessimistic grant settlement. Disadvantage = No full respite for the departments.]

12. Accepting that the gap is going to be higher than the optimistic situation, it would be unreasonable not to take any steps towards closing that gap, but assuming a higher deficit could lead to needless concerns.
13. The situation is obviously far from satisfactory, but considering the fact that we have already found savings of £65m over the last 12 years, and the more difficult decisions ahead of us, it is better to pause rather than over react especially as we have the ability to do so.
14. **I recommend** that we round the £1.7m up to £2m and that the Cabinet adopts Option 3, and that we ask each department to find their share of the £2m needed to address the minimum resource deficit we face due to inflation, and ask the Scrutiny Committees to scrutinise these proposals in the autumn.
15. As the Cabinet wants to take a strategic approach to income budgets, no plans should include an increase in fees and charges.
16. Whilst doing this, it is also **recommended** that we ask departments to report the same time to the relevant Scrutiny Committee on how they intend to cope with any deficit that needs to be addressed in their savings plans.

Statutory Officers’ Observations

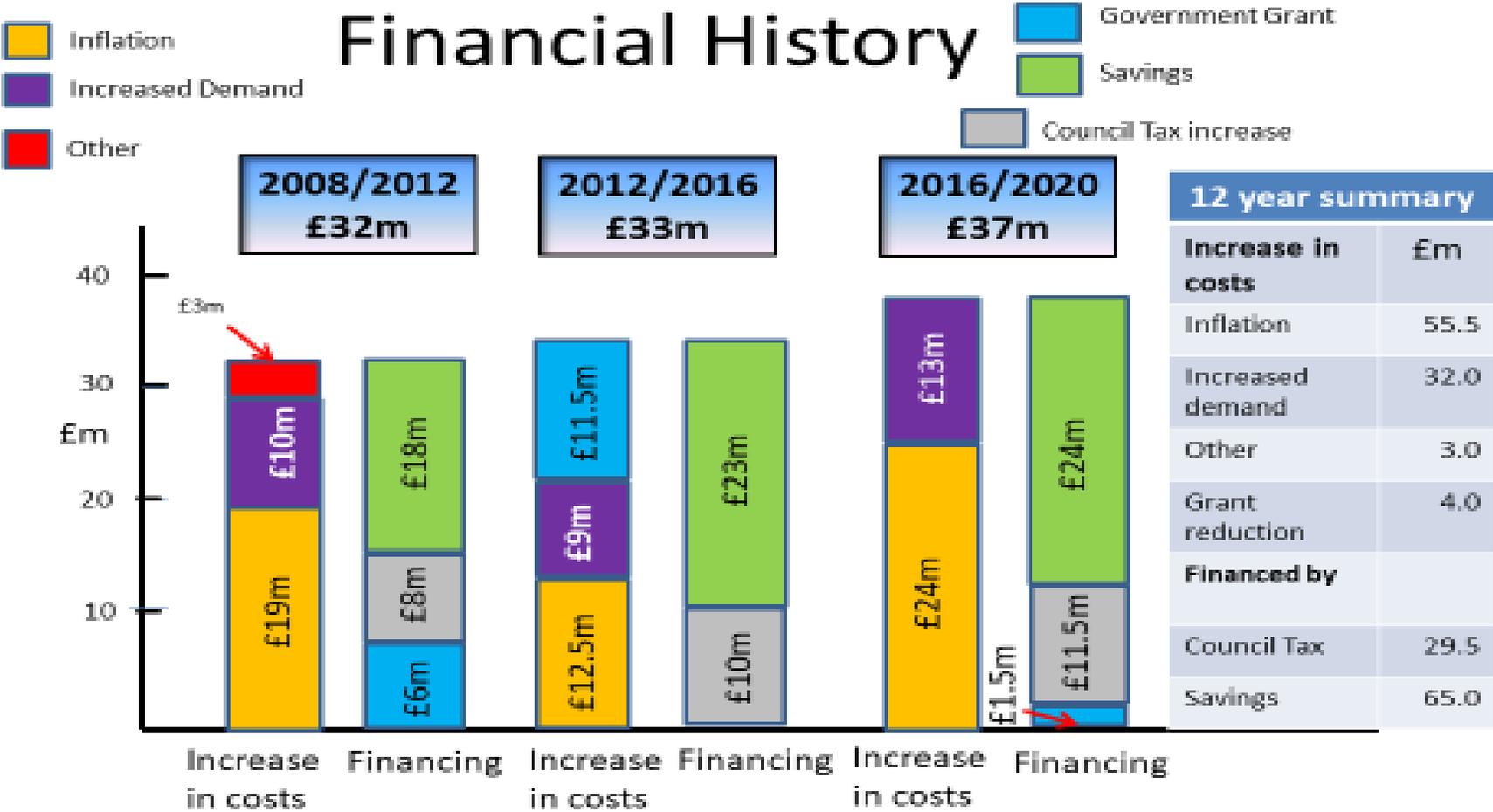
Monitoring Officer

The report highlights the challenges involved in planning the budget for 2020/21. In the circumstances the recommendation and rationale for setting the direction is appropriate.

Head of Finance

I have co-operated with the author in preparation of this report. I confirm that there’s a reasonable basis for the estimates and support the decision sought.

Financial History



Appendix 2

