

**Meeting:** Cabinet

**Date:** 16 February 2021

**Cabinet Member:** Councillor Ioan Thomas, Cabinet Member for Finance

**Subject:** 2021/22 Budget

**Contact Officer:** Dafydd L Edwards, Head of Finance

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## **2021/22 BUDGET**

### **Decision sought**

Recommend to the Council (in its meeting on 4 March 2021) that:

1. A budget of £271,751,360 should be set for 2021/22, to be funded by £194,793,140 of Government Grant and £76,958,220 Council Tax income, with an increase of 3.7%.
2. Establish a capital programme of £47,085,960 in 2021/22 to be funded from the sources noted in Appendix 4 of the report.

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### **1. INTRODUCTION**

- 1.1 The Council has to set a balanced budget for 2021/22.
- 1.2 This year, for 2021/22, the Council has received a grant increase which addresses inflation, and is a fairer settlement than those in the years before 2020/21. Nevertheless, some decisions must be made to finance nearly unavoidable increases in the cost of some core services and increasing the Tax by 3.7%.
- 1.3 It is recommended that the Tax is increased by 3.7% in 2021/22 in order to protect essential services for the people of Gwynedd, as it would be impractical to implement additional savings schemes this year.
- 1.4 Having consulted with the majority of Council members in a series of workshops in January, and with the Audit and Governance Committee (11 February), it is a Cabinet function (16 February) to recommend an appropriate balanced budget to the Council (4 March) for 2021/22.
- 1.5 By 2021/22, we would need to increase our expenditure by £10.6m in order to "stand still" (details in part 3 below), including £3.6m to meet pressures on the services' budgets (details of individual 'bids' are in Appendix 2).
- 1.6 In order to address the financial gap, it is estimated that £725k can be harvested in 2021/22 from the savings schemes already planned (details in part 4 below and the individual schemes are listed in Appendix 3), but then Council Tax will have to be increased 3.7% (details in part 5 below, and in Appendix 6).
- 1.7 There was a thorough review of the Asset Strategy in 2019, which was revised in 2020, and this year we propose establishing a capital programme worth £47,085,960 in 2021/22, as set out in Appendix 4.

- 1.8 It is intended to model the Medium Term Financial Strategy (for 2021/22 – 2023/24) during the summer of 2021, following the UK Government Chancellor’s Comprehensive Spending Review, as there’s a risk of a fundamental change in the Government’s plans. It is possible that flexible procedures will be required in order to realise more savings in subsequent years, but it is intended to consider that after receiving more information.
- 1.9 The 2021/22 budget attempts to protect services the Council provides for the people of Gwynedd, and recommends a 3.7% increase in Council Tax to achieve that aim this year. Savings schemes previously planned were selected in those areas which will have the least effect upon our citizens, but by now it is more challenging to identify and achieve savings.
- 1.10 It is a matter for the full Council to consider the budget and set the Council Tax for 2021/22 on the basis of the issues noted in the following report. The detailed report notes the factors that influence the proposed revenue budget for 2021/22, and outlines the main changes since 2020/21.

## 2. WELSH GOVERNMENT GRANT

- 2.1 The Welsh Government has announced the indicative settlement to finance local authorities for 2021/22. The details, as announced officially ‘like-for-like’ by Welsh Government, are noted in the table below, together with the real “cash” figures:

<b>Revenue Support Grant 2020/21 – 2021/22</b>	<b>Total Welsh Authorities £</b>	<b>Gwynedd Council official £</b>	<b>Gwynedd Council “cash” £</b>
2020/21 Government Grant	4,479,570,160	188,409,170	187,579,040
2021/22 Government Grant	4,651,494,400	194,793,140	194,793,140
Increase £	171,924,240	6,383,970	7,214,100
Increase %	+3.8%	+3.4%	-

Further details are available here –

[Local government revenue and capital settlement: provisional 2021 to 2022 | GOV.WALES](#)

- 2.2 The Welsh Government’s official figures in the table above notionally show that Gwynedd Council receives an increase in the grant of £6.4m by next year (after amending the 2020/21 comparative figure to reflect transfers into the settlement), which is a 3.4% increase, with the average across Wales being 3.8%.
- 2.3 A number of factors feed the local government grant allocation formula, such as the population, the number of pupils, and the number of income support claimants. This year, there has been a greater increase in these numbers for other authorities..
- 2.4 Also, we received a significant “cash” increase due to a taxbase adjustment, which re-distributes grant between Welsh local authorities. This was due to a relative reduction in council tax properties in Gwynedd (compensating us for the effect of ‘holiday homes’ migrating to the business rates list), compared with the usual general increase in council tax properties across other Welsh local authorities.

- 2.5 The Welsh Government will publish the final grant settlement for local authorities on the 2nd of March, together with the Welsh Government's own final budget, and there will be a Senedd debate thereon on the 9th of March. Having discussed with Welsh Government officials, no significant change is expected from the 'indicative' grant figures in the draft settlement.
- 2.6 If the grant figure changes up or down on publication of the Final Settlement, so late in the 2021/22 budget and tax setting cycle, it would be too late to change the figures for Council Tax. Hence, we will either use the Council's general balances to reconcile a reduction in grant funding, or make a contribution to general balances to reconcile an increase in grant funding.
- 2.7 Prima facie, the 2021/22 settlement for Welsh local authorities is quite reasonable, but that has been counterbalanced by additional costs. In short, as discussed in the members' workshops this year, the grant increase is sufficient to meet inflation, but insufficient to also address the increased demand for Council services.

### 3. COUNCIL REVENUE EXPENDITURE - 2021/22

- 3.1 The table below shows the increase in expenditure required in order to "stand still" in 2021/22.

#### Additional Expenditure Requirements

	£	£
Base Budget		261,837,750
Staff Salary Inflation	3,498,200	
Other Inflation (suppliers)	2,560,210	
Levies (Fire, SNPA & NRW)	334,870	
Demography	250,280	
Bids – Pressures on Services	3,587,520	
Various Budget Adjustments	232,550	
Borrowing Costs / Interest on Balances	<u>174,910</u>	
Net total of increases		<u>10,638,540</u>
Total 2021/22 expenditure requirements before savings		<u>272,476,290</u>

#### 3.2 Base Budget 2020/21

Although £262m is the net 2020/21 expenditure, it is important to note that the Council's true expenditure is £430m, as we receive a multitude of specific grants worth £109m and raise nearly £59m of sundry income for services which we provide.

#### 3.3 Salary inflation £3.5m

Despite the UK Government Chancellor's desire for a 'pay freeze', provision is made for a pay increase of £250 pro rata to staff on salaries of £ 24,000 or less, together with prudent provision for all Council staff, just in case there'll be a compromise on national pay agreements which will be effective from April 2021.

Further, provision is made for a 3.1% salary increase for Gwynedd's school teachers for the period April – August 2021 (full-year effect of the September 2020 pay deal).

Also included here is the cost of increments net of turnover which this year involves allocating an additional £116,500 to primary schools, and an additional £96,000 to secondary schools (total £212,500).

#### 3.4 **Other Inflation £2.6m**

Net amount which includes provision for the effect of the 'living wage' (minimum wage) on the costs and fees payable to our private suppliers (including £305k for independent residential care homes, and £328k for non-residential care companies), together with a significant increase in inflation on fuel and energy budgets (£182k) and increase in re-tendering prices (school taxis £207k, and insurance £229k).

#### 3.5 **Levies £335k**

In December 2020, North Wales Fire Authority decided to raise the levy on constituent authorities by 3.15% for 2021/22, which increases the requirement from Gwynedd Council by £233k. For the first time in several years, there is an increase of £96k in the Snowdonia National Park Authority levy, and also an estimated £6k increase in the special drainage levy to 'Natural Resources Wales'.

#### 3.6 **Demography £250k**

Total amount which reflects +£187k due to a net increase in the number of pupils in schools, +£30k for the Adult Care Department to address the increasing number of people who will need care in an ageing population, and +£33k due to an increase in the number of children receiving care from the Children and Families Department. The net figure of +£187k for schools hides different positions in different sectors, namely secondary +£447k and primary -£260k.

#### 3.7 **Pressures on Services £3.6m**

Unavoidable 'bids' – refer to Appendix 2 for details of each individual 'bid', including £3.59m revenue and £296k capital.

It is recommended to approve applications ("bids") worth £3.59m submitted by the Council's departments for permanent additional resources to meet the unavoidable pressures on their services.

It is also recommended to approve 'one-off' bids worth £1,348,500 and to finance these from a Corporate budget (around £1m specifically earmarked for one-off expenditure in the 2020/21 budget), with the balance (£345k) to be financed in 2021/22 from the Council's general balances.

Bear in mind that many of the Council's main priorities (developmental matters in order to make a difference) are being funded and commissioned separately (individually by Cabinet decisions), via the 'Council Plan' (to be funded from the Council's Transformation Fund).

What is presented in these "bids" in Appendix 2 are unavoidable commitments that the departments are facing now.

Every department is given the opportunity to identify any expenditure which the Council must fulfil in order to ensure the continuation of basic services. This procedure is not for desirable new developments, but rather for continuation of current basic services.

Of course, an element of these bids are revealed whilst reviewing the current year's spending patterns. Others are a result of factors where there is a need for expenditure in order to protect outcomes for the public, or to meet statutory requirements.

There is also an element of central government creating more pressure and expectations, and then the Council having to deal with the consequential effects.

The items presented here in Appendix 2 have been challenged thoroughly by the Leadership Team before being recommended to be approved by the Cabinet. Further, all these 'bids' were discussed when they were presented on slides at the series of 'Budget Workshops' on 25-28 January 2021, where most of the Council members reached a consensus that the expenditure was unavoidable.

### 3.8 **Various Budget Adjustments £233k**

A total which reflects a significant number of adjustments to different budgets across the Council, but mainly adjustments to reduce the Maritime Service's fees and charges income target .

### 3.9 **Borrowing Costs and Interest on Balances £175k**

Projection of a reduction (£145k) in interest payable on loans in 2020/21, as old long-term loans come to an end, together with a decrease £320k in returns from investing the Council's balances and cash flow.

### 3.10 **Covid-19**

In the 2020/21 Revenue Budget Review report to the Cabinet meeting on 26 January 2021, it was noted that the Welsh Government had already compensated Gwynedd Council with grant claims worth £12m from their Hardship Fund in the first 9 months, with the total Government support from the Covid19 crisis expected to be in the region of £20m by the end of 2020/21. Having noted the allocation of funding in the Welsh Government's 2021/22 budget for Covid19, and the supportive attitude of Ministers and officials to Welsh local authorities, it is a reasonable budgeting assumption that the Welsh Government will continue to compensate for additional costs and loss of income in the next financial year. Therefore, in Gwynedd Council's 2021/22 budget, we have ceased to include additional provision to cope with costs and losses from the continuation of the crisis, assuming (apart from un realised savings) the Welsh Government will continue to fund this.

## 4. **SAVINGS**

4.1 Covid19 has contributed to slippage in the savings program, as the Council has given priority to protecting the health and lives of the people of Gwynedd. Since 2015/16, over £30m of savings schemes have been realised by Gwynedd Council, but it is estimated that £3.3m worth of savings will not be realised.

4.2 On 13 October, Cabinet noted that financial planning was extremely challenging, and therefore if there is a funding gap to balance the 2021/22 budget, the Council will use reserves to mitigate short-term resource losses, rather than rush to find additional new savings schemes in the midst of the crisis.

4.3 Following consideration of the 'Savings Overview 2020/21' and 'Budget Strategy 2021/22' reports by Cabinet on 13 October 2020, the Chief Executive and Head of Finance met each individual Cabinet Member with their heads of department to discuss how to proceed with their planned savings, despite the crisis.

4.4 On 26 January 2021, the meetings with departments were reported back in a 'Savings Situation' report to Cabinet, where it was decided to defer or eliminate unrealisable historic savings - as outlined in the 'Defer / Delete' table below (more details are in Appendix 3, and in the Cabinet report of 26 January).

<b>Savings</b>	<b>Defer to 2022/23 £</b>	<b>Delete £</b>
2017/18 - 2020/21 Schemes	1,037,750	848,040
2021/22 Schemes	511,250	595,450
<b>TOTAL</b>	<b>1,549,000</b>	<b>1,433,490</b>

4.5 Therefore, £1,106,700 of originally planned savings by 2021/22 will no longer contribute to closing the 2021/22 budget gap. Furthermore, £1.6m of budget provision has been used to fund the £1.9m of unrealised historic schemes, with the residual gap of £242,790 to come from the savings planned for 2021/22.

4.6 Following the above adjustments to the savings program, all individual schemes to be implemented by departments in 2021/22 are listed in Appendix 3 for information, and the departmental totals are summarized in the following table.

<b>Savings to cope with 2021/22 Funding Gap</b>	
	<b>£</b>
Education Departments and Schools	65,000
Children and Families Department	23,170
Adult, Health and Wellbeing Department	78,750
Housing and Property Department	302,050
Corporate Support Department	117,750
Finance Department (& I.T.)	100,000
Environment Department	73,750
Highways and Municipal Department	206,250
<b>Total Approved Previous Savings 2021/22</b>	<b>966,720</b>
Less: Finance balance of deferring and deleting schemes	<b>-241,790</b>
<b>Net savings available to reduce budget gap 2021/22</b>	<b>724,930</b>

4.7 To meet the 2020/21 budget funding gap, £967k of savings already approved could be harvested, but it has already been decided to use £242k of this to fund the cost of delaying and deleting 2017/18 - 2020/21 historic savings schemes that could not be realised.

4.8 With the exception of the cheaper energy procurement efficiency saving (£150,790) approved by Cabinet during 2020, all proposed schemes are to be realised in 2021/22 (with the savings to be deducted from the budgets of the relevant departments) have already been approved by the Council in previous years.

4.9 As a result, there will be a net total of £725k of savings to be used to reduce the 2020/21 budget funding gap.

## **5. 2021/22 FUNDING GAP AND THE COUNCIL TAX**

5.1 It can be seen from part 2 above, that the Council's expenditure requirements (before deducting savings) for 2021/22 are £272.5m. It is noted in part 2 above that the Welsh Government's grant will be £194.8m.

5.2 As explained in part 4 above, a total of £725k of savings to be used to reduce the funding gap.

<b>Establishing the 2021/22 Budget</b>	
	£
2020/21 Base Budget	261,837,750
Additional Expenditure Requirements	<u>10,638,540</u>
2021/22 Expenditure Requirements before Savings	272,476,290
less Welsh Government Revenue Grant Income	<b>-194,793,140</b>
less Total Savings to close the Gap	<b><u>-724,930</u></b>
Funding Gap from Council Tax	<u>76,958,220</u>

5.3 This means that there is a remaining gap of £77m, and it is recommended to meet that gap with Council Tax. The Tax would need to be raised by 3.7% in order to produce sufficient income.

5.4 Background information and the context for setting the Tax level (together with details of the Premium on second homes and empty properties) is presented in Appendix 6.

5.5 Therefore, it is recommended to increase the tax by 3.7%, which will generate £77m of tax by 2021/22, including £2.7m of additional income towards the gap. This would equate to a Council Tax increase of £52.92 for a Band D property, or £1.02 a week. The tax levied by the Police Authority (increase of 5.14% in 2021/22) and the community councils (various %) will of course be in addition to this.

5.6 In 2020/21 the Band D level for Gwynedd was £1,430, while the average tax rate for the Welsh counties was £1,354. However, that is for historical reasons, as the increase in Gwynedd Council Tax since 2014/15 was an average of 4.2%, which is less than the 4.4% increase seen on average across Wales during the same period period.

5.7 Should the Council members want an increase less than 3.7% in the level of Tax, then less will have to be spent on Services. The option discussed at the members' workshops was not to fund some of the permanent 'Category 2' revenue bids contained in Appendix 2b. The 'Category 1' bids are almost inevitable, but there is slightly more discretion with the 'Category 2' bids. The right-hand column in Appendix 2b sets out how much Council Tax for 2021/22 would be reduced by not approving the individual 'Category 2' bids.

5.8 The choice between maintaining services and taxing is, of course, still a difficult one, and there were several discussions about this at members' workshops this year. For 2021/22 the average tax increase of the other local authorities across Wales is likely to be around 4.1%, and the proposal to increase the tax by 3.7% is similar to most authorities in North Wales.

**6. CONCLUSIONS / 2021/22 BUDGET**

6.1 This report and the appendices set out the factors that should be considered when establishing the 2021/22 budget and despite an adequate grant increase to meet inflation this year, it confirms that historic savings must continue to be harvested and increase the level of tax in order to address the financial situation facing the Council.

- 6.2 It is recommended to address a revenue expenditure requirement of £271.8m, having added £10.6m, which includes providing £3.6m in order to meet the demand for services.
- 6.3 After receiving a grant of £194.8m from Welsh Government and depending on £725k of savings, the level of Council Tax will need to increase 3.7% to yield £77m of income in order to close the 2021/22 funding gap.

<b>Balanced budget for 2021/22</b>	
	£
2021/22 Expenditure Requirements before Savings	272,476,290
2021/22 Savings Total	<u>-724,930</u>
2021/22 Budget	<u>271,751,360</u>
<b>To be funded from -</b>	
Grant Income	194,793,140
Council Tax (yield after raising 3.7%)	<u>76,958,220</u>
2021/22 Budget	<u>271,751,360</u>

- 6.4 This will mean setting a net budget of £271,751,360. An analysis of the budget per service is given in Appendix 1.

**7. CAPITAL**

- 7.1 The 2019/20 – 2028/29 asset strategy was established by the full Council on 7 March 2019. The new asset strategy is operational for the period 2019/20 until 2028/29. It will be incorporated as part of the Capital Programme, and we are adding to it for 2021/22. Details are in Appendix 4.
- 7.2 The 2 tables in Appendix 4 reflect the capital requirements, together with the funding, for setting the 2021/22 to 2023/24 budget, and to establish a total programme of £47,085,960 in 2021/22, to be funded from the sources analysed in Appendix 4.
- 7.3 In the table in Appendix 4 it is noted that £500k is available to fund Capital Bids annually, for 2021/22, £296k is the total of the 6 related capital bids as detailed in Appendix 2ch. The remaining £204k will be added to the provision available for 2022/23 towards funding capital bids.

**8. LONGER TERM STRATEGY**

- 8.1 In some previous years, the Medium Term Financial Strategy has been included with the budget report. This year, as last year there is more uncertainty about the future before the Westminster Government Chancellor's comprehensive spending review in summer 2021.
- 8.2 Welsh local authorities must also forecast Welsh Government's policy / intent, and of course the local authority grant settlement for 2022/23 and beyond will depend on the outcome of the Senedd election on 6 May 2021.
- 8.3 It is as yet unclear when we may get an indication of the results of the Spending Review.



- 8.4 Therefore, I will be presenting the Medium Term Financial Strategy to a subsequent meeting of the Cabinet during the summer, in order to consider the risk of the need of a savings strategy for the future.

## **9. OTHER CONSIDERATIONS AND VARIOUS ASSESSMENTS**

- 9.1 This budget recommends the use of £345k of the balances to fund the residual amount of the one-off revenue bids. The current level of the Council's overall balances is £8m, and having used the above £345k and address the impact of Covid-19 on the 2020/21 end of year accounts, it is considered that the level of balances will be appropriate to retain for practical cash flow and unexpected expenditure. Detailed information about the balances and reserves are presented in Appendix 7.
- 9.2 Appendix 5 'Dealing with the School's Budget in 2021/22' explains Gwynedd's schools' fair budget 'deal' in detail.
- 9.3 When deciding on a budget, the Cabinet and the Council must consider the effects of their decisions from an equality perspective in accordance with the Council's statutory duties through the 2010 Equality Act. This will be lighter this year, as we are not introducing any additional new savings plans. However, in accordance with normal practice, Appendix 8 deals specifically with the duty, and also includes the statutory finance officer's comments on the whole budget from an equality perspective.
- 9.4 The Council implements the Wellbeing of Future Generations (Wales) Act 2015 and the recommendations in the report are based and developed in accordance with the Council's statutory duty under Section 3 to undertake sustainable development in all its activities. In accordance with normal practice, more detailed information about the Wellbeing Act and relevant findings are in Appendix 9.
- 9.5 The statutory finance officer must express an opinion on the robustness of the estimates. An assessment of risks and appropriate confirmation are presented in Appendix 10.

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### **Opinion of local member**

Not a local matter

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### **Views of the Statutory Officers**

#### **Monitoring Officer:**

Although it is a matter for the full Council to make a final decision on the budget, it is important that the Cabinet gives them a clear recommendation regarding its expenditure plans and the draft budget, and this report achieves that. Once the Council has agreed on the financing sources, then the Cabinet will be responsible for the expenditure and the priorities within that budget.

#### **Head of Finance:**

I have collaborated with the Cabinet Member in the preparation of this report and I confirm the content. Having considered all the risks outlined in Appendix 10 to the report, and the actions taken in mitigation, I am of the opinion that the Council's Budget for 2021/22 is robust, sufficient, and achievable.

## **APPENDICES**

- 1 Proposed Budgets
- 2 Bids Summary
- 2a Permanent Revenue Bids Category 1
- 2b Permanent Revenue Bids Category 2
- 2c One-off Revenue Bids
- 2ch Capital Bids
- 3 Savings
- 4 Capital
- 5 Dealing with the Schools' Budget in 2021/22
- 6 Council Tax
- 7 Balances
- 8 Equality Impact Assessment
- 9 Wellbeing of Future Generations (Wales) Act 2015
- 10 Robustness of Estimates