

**REPORT TO THE CABINET**  
**16 February 2016**

**Cabinet Member:** Councillor Peredur Jenkins, Cabinet Member for Resources

**Subject:** 2016/17 Budget and 2016/17 - 2019/20 Financial Strategy

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

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**Decision sought**

Dependent on the following discussion on the cuts, in accordance with medium-term financial strategy, recommend to the Council (in its meeting on 3 March 2016) that:

1. A budget of £226,174,470 should be set for 2016/17, to be funded by £166,990,200 of Government Grant and £60,004,230 Council Tax income, with an increase of 3.5% (or a revised combination of figures after the Cabinet has considered the report on the 'Cuts').
  2. Establish a capital programme of £22.141m in 2016/17 and £12.286m in 2017/18 to be funded from sources noted in clause 9.4 of the appendix.
  3. Authorise the Head of Finance, in co-operation with the Cabinet Member for Resources to arrange to finance a revised amount from reserves, as necessary, in order to protect the Council's decisions on the budget and tax should there be marginal changes in Government grant, following the Welsh Government's decisions, which will lead to the announcement of the final grant settlement for local government on 2 March, and a vote thereon in the Assembly on 9 March 2016 to confirm.
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**Introduction**

1. The Council has to set a balanced budget for the year ahead (2016/17) ensuring that the expenditure balances with its income.
2. In accordance with usual practice, the Council has established its annual budget within the context of a medium term financial strategy, in order to ensure that the budget is prepared for the position ahead, rather than meeting the requirements of one year alone.
3. This medium term planning has proven to be of benefit to us as we have been able to plan necessary savings rationally, without having to take rushed / wrong decisions in terms of the benefits to our citizens.
4. Having consulted in a series of cuts scrutiny workshops during January, and with the Audit Committee (11 February), it is a matter for the Cabinet to consider the 2016/17 – 2019/20 financial strategy, recommending an appropriate budget to the Council for 2016/17.
5. The appendix attached to this report details all the relevant matters that need to be considered when establishing the 2016/17 budget together with those issues which influence the establishment of a strategy for the future.

**A) 2016/17 BUDGET**

6. The proposed budget for 2016/17 can be summarised as follows –

Council Tax Increase %	3.50%
2016/17 Expenditure Requirements	£238,454,140
Less Government Grant income	£166,990,200
Less Council Tax income	<u>£60,004,230</u>
Deficit	£11,459,710
Savings which will be achieved	<u>£6,424,500</u>
Balance to be met from Cuts	<u><u>£5,035,210</u></u>

7. By 2016/17, an assessment of our fundamental expenditure requirements suggests that we need to increase our expenditure to £238.5m in order to “stand still”.
8. This includes £1,284,000 to meet the costs of transferring into the settlement along with £1,174,810 to meet pressures on the services’ budgets. Full details of these are given in part 3 of the attached appendix.
9. There is also a need to meet one-off requirements equivalent to £820,740 to be funded from reviewing specific reserves again in 2016.
10. Bear in mind that the Council’s main priorities (developmental matters in order to make a difference) are being funded and commissioned separately, through the Strategic Plan. What is presented here are unavoidable commitments that the departments are facing now.
11. Within the proposed budget, it is anticipated that we will be complying with the Welsh Government’s funding promise for schools, but they are facing pressure on their delegated budgets due to increases in national insurance and teachers’ pension contributions, as well as £2m of agreed efficiency savings.
12. The grant that we will receive from the Welsh Government for 2016/17 will reduce 1.5% to £167m, which is another substantial reduction following the 4% reduction in 2015/16 and the 4.4% reduction in 2014/15.
13. In order to meet the financial gap that this creates in 2016/17 it will be possible to attribute the schools’ £2m savings, and call upon £3m of efficiency savings which are already in progress, together with £2m of new efficiency savings which are planned to be harvested in 2016/17.
14. It is recommended that the remaining gap is funded by a combination of increasing the Council Tax and implementing service cuts as prioritised further to the public consultation, ‘Gwynedd Challenge’.
15. There will be a following report under the same item on this meeting’s agenda, discussing the merits of increasing Council Tax by more than 3.5% for 2016/17, in order to avoid implementing some cuts.
16. Within the proposed budget, one risk is the fact that there will not be any general contingency budget. We would have to fall back on the Council’s balances if there were unexpected spending needs.

17. Further to completing a thorough review of the Asset Management Plan, we have amended the 2016/17 capital programme and established a programme on the basis of the minimum required for 2017/18, as noted in Appendix 2, which will mean a programme of £22.14m in 2016/17 and £12.29m in 2017/18. The programme continues to spend on capital schemes at a greater level than the resource which we receive from Welsh Government to support our capital programme, but it is not considered that the present level of borrowing will overstretch the Council.

## B) MEDIUM TERM STRATEGY

18. It was reported in February 2014 that we might be facing a financial gap of over £50m over the 4 year period 2014/15 – 2017/18, and the current savings strategy was planned.
19. A revised forecast was presented to the Cabinet meeting on 24 November 2015, with a “central case” including a 2% reduction in Government grant for 2016/17, which was a lot less pessimistic than what was prevalent across Wales at the time.
20. The November report concluded “that the probability of cuts in 2016/17 and 2017/18 had **not** substantially changed from when the current cuts strategy commenced.” I confirm that this continues to be true.
21. Further to a grant cut of 1.5% in the 2016/17 ‘settlement’ (on the basis of the Welsh Government’s draft settlement announced on 9 December 2015), the revised forecast is now summarized in the table below:

### 2016/17 to 2019/20 BUDGET

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Add back use of Balances	2,019			
Additional Expenditure Requirements	10,261	8,220	6,631	7,486
General Grant Reduction	1,322	2,100	3,100	2,900
Increase Council Tax	- 2,141	- 2,220	- 2,302	- 2,387
<b>The Gap</b>	11,461	8,100	7,429	7,999
Current Savings	- 3,090	- 3,947	- 130	-
Schools’ Savings	- 2,095	- 990	- 263	
Additional Savings	- 1,240	- 2,692	- 1,009	- 2,315
The balance from the Gap = <b>Year’s cuts</b>	5,036	471	6,027	5,684
Following year’s cuts	471		5,684	
<b>2 year cuts (2 + 2 strategy)</b>	<b>5,507</b>		11,711	

22. Ideally, the Council would wish to deliver a financial strategy over 4 years. Unfortunately, that is not practical this year, due to the Welsh Government's intention to provide only a one-year settlement, without any indicative allocations in respect of subsequent years.
23. Hence, it is sensible to complete the current response plan for the next two years, before identifying the additional funding gap to be faced in 2018/19 and 2019/20. By then, it is hoped that some pressures on local authority services, such as the minimum living wage, will be funded by central government. Also, local government reform plans may be clearer and present opportunities for early savings before 2020. The local government community, including the Head of Finance as Chairman of the Society of Welsh Treasurers, is campaigning for four-year settlements in the future, following the May 2016 elections.
24. In the meantime, it is recommended that we should continue to work on the basis of the same range of possibilities as already agreed for 2016/17 – 2017/18, namely:

Council Tax Policy	Consider increase in the Council Tax in the 3.5% - 5% range
Schools Budget	Continue with the target of £4.3m from the schools budget
Efficiency Savings	Maximising the efficiency savings that can be achieved
Cuts	Implement as necessary, in order to save the balance remaining

25. The strategy to ensure more efficiency savings is already in hand with schemes worth £26m approved, or implemented since 2014/15, and others worth £7m receiving further attention.
26. The 'Gwynedd Challenge' strategy to prioritise cuts has also progressed, with an inclusive programme establishing priorities in order to try to ensure that the unavoidable cuts reflect the priorities of the people of Gwynedd. This will be the subject of the following report on this meeting's agenda.

### **Reasons for recommending the decision**

27. The whole strategy attempts to protect the services the Council provides for the people of Gwynedd whilst keeping the Council Tax increase to the minimum which is consistent with that aim.
28. It also tries to ensure that any savings which we will have to deliver will be found from those areas which will have the least effect upon our citizens.

### **Relevant considerations**

29. As noted above, it is possible to charge less or more Council Tax, which will affect the level of cuts which will be required over the period.
30. It is a matter for the Council to consider the budget to be set for 2016/17 on the basis of the issues noted in the attached appendix, and to consider whether they wish to change any element.

31. An inclusive process has consulted with the public and with the Council's members. The separate report on this meeting's agenda will note the result of that process, so that the Cabinet may consider members' views on the options before making recommendations regarding the budget to the Council. It will be a matter for the Council to adopt that budget or not.

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**Opinion of local member**

Not a local matter

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

Clearly, this report needs to be read with the separate report to this meeting on the Gwynedd Challenge. However, what the recommendations in this report do, is to set a firm financial basis so that the Cabinet can consider the choices of cuts and taxation they are to give attention to before making a recommendation to the full Council. As the report notes, the prudent long term financial planning that the Council has made over the past years has placed the Council in a good position to make informed decisions about these matters.

**Monitoring Officer:**

The final decision on setting the budget lies with the Council but it is important that the Cabinet provides them with a clear recommendation. The timetable for declaring the final grant settlement from the Government means that the calculation of the budget will be based on estimated figures. Estimated figures may be used to set the budget however the risk element which comes with this and the restrictions which relate to a review of the Council Tax need to be considered and that measures are put in place to address the risk. The report addresses this in the recommendations.

**Head of Finance:**

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

**Attachments**

2016/17 Budget and 2016/17 – 2019/20 Financial Strategy Report to the full Council.