

MEETING:	Full Council
DATE:	3 March 2016
SUBJECT:	2016/17 BUDGET
CABINET MEMBER:	Councillor Peredur Jenkins, Cabinet Member for Resources
CONTACT OFFICER:	Dafydd L Edwards, Head of Finance
PURPOSE:	Set the Council's Budget and determine the 2016/17 Council Tax level

2016/17 BUDGET

1. The Cabinet's recommendations to the Council are shown on the meeting's agenda, including, together with the list of cuts, etc, -
 - (i) that the budget mentioned in the Cabinet Member's report should be adopted for 2016/17 which means setting a budget of **£227,227,120** for 2016/17, to be funded by **£166,950,760** of Government Grant and **£60,276,360** of Council Tax income which would mean a Council Tax increase of **3.97%**, an increase of £46.09 in Council Tax Band D from £1,161.07 to **£1,207.16** per year.
2. The Council must set a balanced budget for the year ahead (2016/17), ensuring that the expenditure balances with the income. Historically, and in accordance with good practice (which has been recognised by the Wales Audit Office), the Council has established its annual budget within the context of the 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 only.
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. Medium term financial planning is referred to further in the second part of this paper.
4. Having consulted in a series of workshops in January to scrutinise the possible cuts, and with the Audit Committee on 11 February, the Cabinet has recommended a budget for the Council to consider approving.

5. The appendices attached to this report detail all the relevant matters that need to be considered when establishing the 2016/17 budget, together with those matters which influence establishing a strategy for the future. The attached paper '2016/17 Budget and 2016/17 – 2019/20 Financial Strategy' is based on a 3.5% tax increase, as presented to the Cabinet, but this front report notes the adjusted figures as a trail for the 3.97% tax increase recommended to the Council.

6. With a tax increase of 3.97%, the proposals for 2016/17 can be summarised as follows –

2016/17 Expenditure Requirements	£238,454,140
Less Government Grant income	£166,950,760
Less Council Tax income (3.97%)	<u>£60,276,360</u>
Deficit	£11,227,020
Savings which will have been achieved	<u>£6,424,500</u>
Balance to be met from Cuts / Bridging	<u><u>£4,802,520</u></u>

7. Along with the funding gap for 2017/18, and whilst presuming a 3.97% tax increase again for 2017/18, the balance to be met from cuts over the two years would be £4.94m.

8. For 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".

9. 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, £2.6m for the increase in national insurance contributions, £4.2m for inflation, etc. Full details of these are given in part 3 of the attached appendix.

10. There is also a need to meet one-off requirements equivalent to £820,740 to be funded one-off from specific reserves in 2016/17.

11. 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 (and in part 3 of the appendix) are unavoidable commitments that the departments are facing now.

12. 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 (£1.2m) and teachers' pension contributions (£388k), as well as £2m of agreed efficiency savings.

13. 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.

14. In order to address the funding 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 £1.2m of new efficiency savings which are planned for 2016/17.
15. It is recommended that the residual gap is addressed by a combination of increasing the Council Tax and implementing service cuts as prioritised further to the public consultation, 'Gwynedd Challenge'.
16. The attached report 'Cuts to meet the financial deficit', as presented to the Cabinet, explains how raising the tax by 3.97%, rather than 3.5%, would avoid implementing some of the cuts that were considered.
17. It is recommended to raise Council Tax 3.97% by 2016/17 and 2017/18 in order to limit cuts on services for the people of Gwynedd. By 2016/17, a Council Tax increase of 3.97% would be a weekly increase of 88p, or £46.09 annually, with a tax of £1,207.16 for a 'Band D' property.
18. It will not be possible to harvest all the cuts immediately from April 2016. Therefore, it is recommended to "bridge" £2,106,050 in 2016/17, to be financed by reviewing the level of specific reserves (as suggested in paragraphs 8.6 – 8.8 of the following paper on the 2016/17 Budget).
19. Within the proposed budget, one risk is the fact that there will not be a general contingency budget. We would have to fall back on the Council's balances if there were unexpected spending needs.
20. 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 level higher than the specific resource which we receive from Welsh Government to support our capital programme, but we believe that the present level of borrowing will not overstretch the Council.
21. If the Council was content to increase the Council Tax 3.97% in 2016/17 and 2017/18, along with the cuts intended to be implemented, together with the savings which are already being realised, it is estimated that this would mean a balanced budget over the two years. However, for context, it is advisable to look further towards the medium term.

MEDIUM TERM STRATEGY

22. 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.
23. 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.
24. 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.
25. Further to a grant cut of 1.5% in the Welsh Government’s draft settlement announced on 9 December 2015, and on the basis of a 3.5% tax increase, the forecast in the table below was presented to the Cabinet on 16 February:

2016/17 to 2019/20 BUDGET *(version presented to the Cabinet @ 3.5%)*

	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
The Gap	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 = Year’s cuts	5,036	471	6,027	5,684
Following year’s cuts	471		5,684	
2 year cuts (2 + 2 strategy)	5,507		11,711	

26. Further to a late adjustment to the grant (email from the Welsh Government on 10/02/2016 reducing Gwynedd's allocation by £39,440), the following table is presented, which also reflects a probable tax increase of 3.97% in 2016/17 and 2017/18.

2016/17 to 2019/20 BUDGET (revised version for the full Council @ 3.97%)

	2016/17 CT 3.97% £'000	2017/18 CT 3.97% £'000	2018/19 CT 3.5% £'000	2019/20 CT 3.5% £'000
Add back use of Balances	2,019			
Additional Expenditure Requirements	10,222	8,220	6,631	7,486
General Grant Reduction	1,361	2,100	3,100	2,900
Increase Council Tax	- 2,413	- 2,514	- 2,302	- 2,387
The Gap	11,189	7,806	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 = Year's cuts	4,764	177	6,027	5,684
Following year's cuts	177		5,684	
2 year cuts (2 + 2 strategy)	4,941		11,711	

27. The round figure of £4.941m above is consistent with the total of the cuts in the recommendation (on the Council meeting's agenda), namely £4,940,900.
28. Ideally, the Council would wish to deliver a financial strategy over 4 years. Unfortunately, this is not practical this year, as the Welsh Government (in an election year) intends to provide a settlement for one year only, with no indicative figures for subsequent years.
29. 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, will be campaigning for four-year settlements in the future, following the May 2016 elections.

30. 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 increases in Council Tax within the 3.5% - 5% range (<i>3.97%, which is +£2.4m in 2016/17</i>)
Schools Budget	Continue with the target of £4.3m from the schools budget (<i>£2m in 2016/17 and £1m in 2017/18</i>)
Efficiency Savings	Maximising the efficiency savings that can be achieved (<i>£6.4m in 2016/17 and £7.6m in 2017/18</i>)
Cuts	Implement as necessary, in order to save the balance remaining (<i>£4.9m across 2016/17 and 2017/18</i>)

31. 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.
32. 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, of course, is the subject of the same full Council decision and the following paper on this meeting's agenda.

Reasons for recommending the decision

33. 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.
34. 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

35. The merits of charging less or more Council Tax, which would affect the level of cuts required over the period, was discussed in workshops, the Audit Committee, and the Cabinet. It is a matter for the full Council to consider the budget to be set for 2016/17 on the basis of the issues noted in the attached papers, and to consider whether they wish to change any element.
36. An inclusive process has consulted with the public and with the Council's members. The following report notes the result of that process, so that the Council may consider members' views on the options and consider the Cabinet's recommendations to the Council. It will be a matter for the Council to adopt the recommended budget or not.

Attachments

- 2016/17 Budget and 2016/17 – 2019/20 Financial Strategy detailed report
Appendix 1 – Details of 2016/17 'Bids'
Appendix 2 – 2016/17 – 2017/18 Capital Programme
Appendix 3 – 2016/17 Service Budgets