

MEETING:	<b>Full Council</b>
DATE:	<b>1 March 2018</b>
SUBJECT:	<b>2018/19 Budget and 2018/19 - 2020/21 Financial Strategy</b>
CABINET MEMBER:	<b>Councillor Peredur Jenkins, Cabinet Member for Finance</b>
CONTACT OFFICER:	<b>Dafydd L Edwards, Head of Finance</b>
PURPOSE:	<b>Set the Council's Budget and determine the 2018/19 Council Tax level</b>

The Cabinet's recommendations to the full Council are:

1. that a budget of £242,862,930 should be set for 2018/19, to be funded by £175,127,330 of Government Grant and £67,735,600 Council Tax income, with an increase of 4.8%.
2. to establish a capital programme of £8.389m in 2018/19, to be funded from the sources noted in clause 9.4 of the report.

A Council Tax increase of **4.8%** would be a weekly increase of £1.15, or an increase of £59.57 in Band D Council Tax, an annual increase from £1,240.96 to **£1,300.53**.

## **SUMMARY**

### **2018/19 BUDGET**

1. The Council has to set a balanced budget for 2018/19 and, in accordance with the usual practice, the annual budget is presented (Part A of the following report) within the context of a medium term financial strategy (Part B), ensuring that the budget prepares for the position to come, rather than meeting the requirements of one year alone.
2. This year, the Council profits from previous years' medium term planning, as we are able to balance the budget without making any new decisions which would cut services for our citizens, although the Tax will have to be increased by 4.8%.
3. It is recommended that the Tax is increased by 4.8% in 2018/19 in order to protect services for the people of Gwynedd, as it will be necessary to plan to find up to £20m of savings by 2018/19 - 2020/21.
4. Having consulted in a series of workshops during January/February, and with the Audit and Governance Committee (8 February), the Cabinet has considered the 2018/19 – 2020/21 financial strategy, and has recommended an appropriate budget to the Council for 2018/19.

**A) 2018/19 BUDGET**

5. The proposed budget for 2018/19 can be summarised as follows –

<b>Savings to address the 2018/19 Gap</b>	
	£
Approved Efficiency Savings	1,484,650
Approved Cuts	368,460
Further Efficiency Savings	896,430
Total Savings to close the Gap	<u>2,749,540</u>

<b>Establishing the Budget and 2018/19 Tax level</b>	
	£
2017/18 Base Budget	231,299,720
Additional Expenditure Requirements	<u>14,312,750</u>
2018/19 Expenditure Requirements before Savings	245,612,470
less Government Grant Income	-175,127,330
less 2018/19 Savings	<u>-2,749,540</u>
Council Tax yield: 4.8% increase	<u>67,735,600</u>

<b>Balanced budget for 2018/19</b>	
	£
2018/19 Expenditure requirements before Savings	245,612,470
2018/19 Savings Total	<u>-2,749,540</u>
2018/19 Net Budget	<u>242,862,930</u>
<b>To be funded from -</b>	
Grant Income	175,127,330
Council Tax	<u>67,735,600</u>
2018/19 Net Budget	<u>242,862,930</u>

6. By 2018/19, we will need to increase our expenditure to £245.6m in order to “stand still”, including £1.55m to meet pressures on the services’ budgets (details of the ‘bids’ are in Appendix 1). Consideration is given to development priorities separate to this, through the Council’s Plan (previous item on the agenda). Presented here are the unavoidable commitments that the departments are facing now.
7. In order to meet the financial gap, it will be possible to attribute £2.75m of savings, and then Council Tax will have to be increased 4.8%.
8. Before completing a more thorough review of the Asset Strategy, we have established a programme on the basis of the minimum required for 2018/19, as noted in clause 9.4 of Part A, which will mean a programme of £8.389m in 2018/19. The programme continues to spend on capital schemes on a higher level than the resource we receive from the Welsh Government to support our capital programme, but it is not considered that the relevant level of borrowing will overstretch the Council.

## **B) MEDIUM TERM STRATEGY - SUMMARY**

9. The modelling work (in Part B of the detailed report) confirms we need to ensure that our procedures are flexible enough in order to realise up to £20m savings over the three years 2018/19 - 2020/21. With this in mind, it is recommended to continue with the current savings strategy where the Cabinet will decide on different targets for the Council’s departments, the heads of department presenting possible savings to meet those targets, and the scrutiny committees challenging the plans on behalf of the people of Gwynedd, before a public consultation on options to be implemented annually.

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

10. The strategy attempts to protect the services the Council provides for the people of Gwynedd, and recommend a Council Tax increase in order to achieve that aim this year. By ensuring savings, they are intended to be achieved in those areas which will have the least effect upon our citizens.

### **Relevant considerations**

11. It is a matter for the Council to consider the budget and set the Council Tax for 2018/19 on the basis of the issues noted in the following report. The Cabinet can decide on the medium term financial strategy, but this is done inclusively in consultation with the Council.

## 2018/19 BUDGET

**1 BACKGROUND**

- 1.1 This detailed report notes the factors that influence the revenue budget proposed for 2018/19, and outlines the main changes since 2017/18.
- 1.2 The medium term financial strategy is presented for the period up to 2020/21 in Part B.

**2 WELSH GOVERNMENT GRANT**

- 2.1 The Welsh Government has announced the settlement to finance local government for 2018/19, and has provided indicative figures for the following year. The details for 2018/19 are noted in the table below:

**Revenue Support Grant 2017/18 & 2018/19**

	<b>Total Welsh Authorities</b> <b>£</b>	<b>Gwynedd Council</b> <b>£</b>
2017/18 Government Grant (without amendment)	4,113,620,440	169,014,600
2017/18 Government Grant (amended)	4,205,336,640	174,092,900
2018/19 Government Grant	4,214,066,930	175,127,330
Increase £	8,730,290	1,034,430
Increase %	0.2%	0.6%

- 2.2 It can be seen from the Welsh Government's figures which are in the above table that Gwynedd Council receives an increased grant of £1m by next year (after amending the 2017/18 figure to reflect the transfers into the settlement) which is an increase of 0.6%, with the average increase across Wales being 0.2%.
- 2.3 A number of factors feed the formula, namely the number of pupils, number of income support claimants, etc. The higher increase in grant for Gwynedd and other rural authorities is mainly because the (current) higher costs of running social services (care) in rural authorities has since been incorporated in the revised allocation formula, and also because other factors have gone in our favour this year. It is fair to say that Gwynedd's officers have been prominent in providing the evidence to justify changing the formula to reflect the true cost of care in rural areas, and the second half of this value is included this year.
- 2.4 For information, in addition to the £1,034,440 in the Welsh Government's figures, a further relatively small increase of £51,060 was received due to a related tax base adjustment.

### 3 COUNCIL REVENUE EXPENDITURE - 2018/19

3.1 The table below shows the increase in the expenditure required in order to "stand still" in 2018/19.

#### Additional Expenditure Requirements

	£	£
Base Budget		231,299,720
Staff Salary Inflation	4,737,040	
Increments net of Turnover	64,870	
Pensions	406,770	
Other Inflation (suppliers)	1,783,200	
Interest on balances	42,750	
Levies	22,980	
Demography	690,630	
Services' Income Adjustments	35,690	
Miscellaneous Budget Adjustments	-2,321,160	
Transfer to the Settlement	5,078,090	
Bids - Pressures on Services	1,550,520	
Bids to be financed from the Council Tax Premium yield	190,930	
Earmark the remainder of the Council Tax Premium yield to Reserves	2,030,440	
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Net total of increases		14,312,750
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Total 2018/19 expenditure requirements before savings		245,612,470
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#### 3.2 Base Budget 2017/18

Although £231m is the net 2017/18 expenditure, it is important to note that the Council's true expenditure is £388m as we receive a multitude of specific grants worth £95m and raise nearly £62m for services which we provide.

#### 3.3 Salary inflation £4.74m

Provision has been made for a 2% salary increase for Council staff, in accordance with the national agreement, with a significantly higher % for some staff on lower grades worth £1.56m to meet the national 'living wage' requirements.

#### 3.4 Increments net of Turnover £65k

Net amount which reflects a higher salary increments level than the value of turnover for all Council staff.

### 3.5 **Pensions – Automatic Enrolment £407k**

Because of Gwynedd Pension Fund's excellent investment performance, we succeeded in not having to increase the Council's employers pension contribution rates in the last triennial valuation.

However, the effect of the automatic enrolment legislation means that more workers are joining the pension scheme, with employers' contributions on those salaries being an additional cost. This £407k is the full-year effect of statutory change from October 2016.

### 3.6 **Other inflation £1.8m**

Net amount which includes provision for the effect of the 'living wage' (minimum pay) on the costs and fees of our private suppliers, together with a significant increase in inflation on fuel and energy budgets.

### 3.7 **Interest on Balances £43k**

Projection of a further reduction in interest receivable in 2018/19, as long-term investments come to an end, while interest rates continue at the current low rate.

### 3.8 **Levies £23k**

In December 2017, North Wales Fire Authority decided to raise the levy 1% on the constituent authorities, which increases the requirement on Gwynedd Council of £62k, while there was an increase of £11k in special drainage levies for 'Natural Resources Wales', but a decrease of £50k in the Snowdonia National Park Authority levy.

### 3.9 **Demography £691k**

Total amount which reflects +£232 due to an increase in the number of pupils in Schools, and +£458k due to an increase in the number of people receiving care from the Adults' Service.

The net figure of +£232k for schools hides different positions in different sectors, namely secondary +£405k, primary -£159k, middle -£79k, and special +£66k. However, the demography effect on schools by 2018/19 has been complicated as -£457k of the demography effect on some secondary schools was deferred in 2017/18. Having included that, the schools net position is -£225k.

In 2017/18, a specific grant was received to meet adults care demography. A similar grant is expected by 2018/19, therefore the Adults' demography amount has been earmarked in a corporate budget until we receive confirmation of the grant.

### 3.10 **Adjustments to Services' Income Budgets £36k**

Net amount which has adjusted services' income targets, including -£100k Adults (Welsh Government has raised the non-residential weekly fees cap), -£65k Environment (which mainly reflects the favourable parking fees position, road closures, etc), -£15k Corporate Support (favourable income for Translation and Occupational Health), -£10k Legal (favourable position for claiming costs), and +£226k Highways (loss of an income opportunity in light of the transfer of staff to the Highways Agency).

### 3.11 **Adjustments to Miscellaneous Budget -£2.3m**

A total which reflects a significant number of adjustments in provisions across the Council, but mainly reversing 2017/18 one-off bids, decrease the corporate budget for Council Tax Reductions, and remove the contingency budget.

### 3.12 **Transfers to the settlement £5.1m**

Several responsibilities will transfer into the Welsh Government's grant settlement for the Council by 2018/19. The budgets that will transfer to the Council's budget, together with the relevant responsibilities, will be assigned to the relevant departments.

Therefore, there will be an increase of £2.9m in the Adults, Health and Wellbeing Department's budget to reflect the transfer of £2,062,930 Welsh Independent Living Grant, together with £724,480 Social Care Workforce Grant, and £114,390 Carers' Respite Care Grant.

There will also be a £218,500 increase in the Children and Supporting Families Department's budget to reflect the transfer of the Looked After Children Grant.

Additionally, there will be an increase of £1,958,010 in the Highways and Municipal Department's budget to reflect the transfer of the Waste element of the Single Revenue Grant.

Other responsibilities are transferring to the Council by 2018/19 (including £212,570 for Preventing Homelessness), but the Welsh Governments' grant settlement does not identify those as "transfers to the settlement". Therefore, the Council's budget treats those as 'pressures on services', that is 'bids' in the following paragraph and the relevant appendix.

### 3.13 **Pressures on Services £1.55m**

Unavoidable 'bids' – refer to **Appendix 1** for details of each individual 'bid'.

It is recommended to approve applications ("bids") worth £1.55m by the Council's departments for permanent additional resources to meet the unavoidable pressures on their services.

It is also recommended to approve £1.51m worth of one-off bids.

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 Council's Plan. What is presented here through the "bids" are unavoidable commitments that the departments are facing now.

Every department has the right to identify any expenditure which the Council has to fulfil to ensure the continuation of basic services. This heading is not for new developments, but rather for continuation of current basic services.

Of course, an element of these applications are highlighted whilst reviewing this 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 we have to deal with the consequential effects.

These items have been challenged thoroughly by the Corporate Management Team and the Cabinet Member for Finance before being recommended to be approved by the Cabinet.

### 3.14 **Council Tax Premium £2.2m**

It is recommended to approve two "bids" worth a total of £190,930 to be financed from the Council Tax Premium yield.

It is recommended to earmark the remainder of the Council Tax Premium yield in 2018/19 in a specific fund to be used towards the Council's priorities.

Specific attention is given to this in part 4 below.

## **4 COUNCIL TAX PREMIUM YIELD ON EMPTY PROPERTIES AND SECOND HOMES**

- 4.1 In the full Council meeting on 8 December 2016, it was decided for the 2018/19 financial year to raise a Premium of 50% on second homes and on properties that have been empty for 12 months or more. Therefore, the Council will receive additional Income in 2018/19 by raising a Council Tax Premium on Second Homes and Empty Properties.
- 4.2 As part of the Council's decision on 8 December 2016, it was noted that the Council's intention was to use a 'percentage' of the money received by raising a premium to provide housing for young people in our communities. Despite that, there is no restriction on the Council's choice in terms of the use of the additional income, and the 'percentage' is unspecified, in line with my recommendation to keep that flexibility in case difficult budgetary choices have to be made.
- 4.3 Following detailed exercises in June and September 2017 to contact homeowners and identify second homes and long-term empty properties, responses were received from the majority of owners and fair assumptions were made for the remainder. Further to the Cabinet Member for Finance's decision notice, which came into force on 21 November 2017, the 2018/19 'Tax Base' was presented to the office of the Welsh Government.
- 4.4 On the basis of that tax base, it is estimated that a Premium of 50% worth around 1,721 in the terms of a 'Band D' property, and as a result the Premium should yield around £2.2 million of additional income. All of the income and relevant expenditure to be met must be incorporated into the 2018/19 budget.
- 4.5 There are two 'first demands' for the money received from the Premium, being two property inspectors in the Taxation Service and an Affordability officer in the Housing Service.
- 4.6 On several occasions when presenting and responding on the matter, the Head of Finance has noted that two 'Property Inspector' posts in the Taxation Service will have to be financed, in order to ensure that the appropriate income will be collected. The Cabinet's minutes of 22 November 2016 noted *"To comply, the Finance Department would require funding to carry out inspection work; therefore, the matter must be looked at in detail"*. Two additional posts are requested by 2018/19 at a total cost of £52,600.
- 4.7 Also, the 21 November 2017 Cabinet has already approved the Housing Service's requirement for £46,110 per year for three years (a total of around £140,000) to *'Increase Supply and Affordability'*, by appointing an additional officer within the Strategic Housing Team, so that the Council will be able to *"take full advantage of grant funding that can be claimed from the Government to increase the number of social and affordable housing in Gwynedd"*.



- 4.8 It is recommended that the Council supports these two 'first demands'. This means there will be around £2m of additional income to be prioritised, after financing Housing's three years above, all from the 2018/19 Council Tax Premium yield.
- 4.9 It is recommended that the total sum of around £2m remaining of the 2018/19 Council Tax Premium be earmarked in a specific fund to be used on the Council's priorities, including providing housing for young people.
- 4.10 It is recommended to wait in order to identify the true tax yield from the Premium, and the threat of financial cuts for services by 2019/20, before attributing the tax yield from the Premium in 2019/20 and following years. It would be prudent for members to retain flexibility for the future, in case the Council needs to make difficult financial choices in 12 months.

## **5 DEALING WITH THE SCHOOLS' BUDGET IN 2018/19**

- 5.1 Whilst developing a draft budget for 2018/19, it became clear that concern was being raised about the schools budget. Since the announcement of the local authority grant settlement, Welsh Government's direction towards "additional funding" and schools protection had raised the financial expectation of Heads and Governors for 2018/19. It was explained to the Schools Finance Forum that Welsh Government had made some misleading announcements regarding the schools financial position, and a way ahead was agreed in order to avoid transferring further savings for Gwynedd schools this year.
- 5.2 The schools budget will face the usual "demography" adjustments which derive from changes in the number of pupils. The position varies from school to school, but on the whole the effect of a reduction in the number of pupils means that the schools budget in its entirety will reduce £225k. There is nothing unexpected in this – a possible reduction of £333k was warned about this time last year.
- 5.3 Against this it can be seen in the 'bids' part of this report that there is a recommendation to agree to fund a bid of £319k by the Education Department towards the integration budget, which means that 'Education' is gaining. Certainly, having taken inflation of over £1.4m into consideration, the schools budget will be much higher in 2018/19 than the level in 2017/18.
- 5.4 However, a number of problems have arisen in the Education field which would mean that the Council would have to add further to their budget through the bids process, or that the Education Department reduces the schools budget if they are to have a balanced budget in 2018/19. The total of these matters would have meant the transfer of £1.7m savings in the schools budget, and the opinion of the Cabinet members was that this would not be practical. Therefore, it was agreed to recommend the following solutions.
- 5.5 Transport – Higher Expenditure (£516k) – In the 2017/18 budgetary reviews, it was noted that the increased overspend projection on the transport budget was within Education, and something would have to be done about it. By leaving it as it is, this would create the need for additional permanent funding of £286k in 2018/19 (together with £230k to meet the 2017/18 deficit). It is recommended that we could use the corporate underspend to make good this year's overspend, but insist that the Education and Environment Departments re-visit their transport policies / arrangements with a view to managing the expenditure within the available budget by 2019/20. In the meantime, in order to buy time to be able to make the change, it is recommended to

bridge £200k of the £286k required in 2018/19 by providing a one-off budget, with the Education Department meeting the remaining £86k.

- 5.6 Integrating - (£347k) – The Additional Learning Needs project (which achieves savings) means that work in the field is being carried out by the Central Unit, rather than the schools. As a result, £347k will transfer from the schools budget to the 'centre' (Education Department). This is a transfer, and whilst the schools budget is reducing, the requirement for schools to spend will also reduce.
- 5.7 Schools Improvement Grant ('EIG') (£618k estimate) - A number of things are financed from the grant, with a significant portion being part of the schools budget. The Education Minister has cut the above specific grant and has "included it in the settlement" in order to state that there is no expectation for the schools budget to reduce. She has also created the impression that there is an expectation that everything financed through the grant is to be maintained. The same money cannot achieve both things and there is a lot of frustration in all local authorities and schools across Wales about this. Whilst reflecting the Minister's aspiration not to reduce the schools budget, in this year's difficult financial position, the Council cannot fill the gap in the grant and the schemes it finances, therefore, a relevant element of the grant reduction will feed through to the schools.
- 5.8 Savings £4.3m – (£263k) – In 2014, it was decided to set a target of £4.3m for schools over 2015/16 – 2017/18, and to collaborate with the Schools Finance Forum to develop plans to achieve the target. Since then, a slippage to 2018/19 was agreed, when the schools reorganisation plans are expected to produce the final £263,000 of the £4.3m target. This saving will not be available until 2020/21 to 2021/22, but rather than transferring the deficit to the schools, it is recommended to re-profile the savings to those years.
- 5.9 Therefore, rather than suffering a "further cut" of £1.7m, the schools will shoulder the relevant element of the £618k estimate of grant reduction which is relevant to them, together with a £347k "technical" transfer which removes the budget and the requirement to spend from them. We understand, of course, that there are reductions in other specific grants, and local factors for individual schools, but with this strategy, on the whole, Gwynedd schools are only expected to find expenditure reductions equivalent to the reduction in the Government's grants by 2018/19.

## **6 2018/19 FUNDING GAP, SAVINGS AND TAXATION**

- 6.1 It can be seen from Part 3 above, that the Council's expenditure requirements (before deducting savings) for 2018/19 are £245.6m. Having dismissed transfers into the settlement of £5.1m, and the £2.2m Premium there is an unavoidable increase of £7m, which is 3% and we will be receiving a grant increase of £1m, which is 0.6%, from the Welsh Government. This means a funding gap of £5,928k.
- 6.2 Since our assumptions for 2018/19 in February 2017, our figures have been modified by significantly higher than expected salary inflation, which to some extent is counterbalanced by the Welsh Government's slightly more favourable than expected settlement. Therefore, the funding gap is much higher than expected.
- 6.3 In order to deal with the gap of £5,928k, efficiency savings of £1,485k can be harvested, and the £369k of cuts which have already been approved for 2018/19. Also, having reviewed the proposed efficiency savings plans, I am convinced that it can be

prudently estimated that we will harvest around £896k of further savings in 2018/19. Therefore, there is a total of £2,750k of savings to be used to reduce the gap of £5,928k.

- 6.4 This means that there is a remaining gap of £3,178k, and it is recommended to meet that gap by raising the Council Tax level. The Tax would need to be raised by 4.8% in order to produce £3,178k of additional income.

### 2018/19 Savings and Tax Calculation

	<b>£'000</b>	<b>£'000</b>
Additional Expenditure Requirements (amended for Transfers to the Settlement and the Council Tax Premium)		7,013
<b>Less - Grant Increase</b>		<u>1,085</u>
2018/19 Funding Gap		5,928
<b>Less Savings -</b>		
- Approved Efficiency Savings	1,485	
- Approved cuts	369	
- Further Savings to be approved	<u>896</u>	<u>2,750</u>
<b>Remaining gap to be met from the 4.8% Council Tax increase</b>		<u><u>3,178</u></u>

## 7 COUNCIL TAX

- 7.1 It is a key decision for the Council's members to make, in light of the above considerations, to establish the exact level of Council Tax for 2018/19. The key to all of this is to strike an appropriate balance between the need to spend on services for the most vulnerable in our society, and the appropriate increase to be levied on the residents of Gwynedd.
- 7.2 In the original assumptions made in our medium term financial strategy, a figure of 3.5% was used, as an estimate of the average increase in Wales. By 2016/17, it was decided to increase the tax 3.97%, in order to avoid implementing some cuts. By 2017/18, it was decided a year ago, as a number of factors had gone in our favour, to balance the 2017/18 budget with a 2.8% increase in the tax level.
- 7.3 This year, it is recommended to increase the tax 4.8%, which would produce tax of £67.74m (including £2.22m of Premium yield and £3.18m of additional income towards the gap). This would equate to a Council Tax increase of £59.57 in a Band D property, or £1.15 a week. The tax raised by the community councils and the Police Authority would of course be additional to this.
- 7.4 Over 16.3% of households in Gwynedd receive some element of assistance towards their Council Tax, and over 60.5% of properites in Gwynedd are in bands lower than band D. Every additional 0.1% of tax would adjust the financial gap we would need to find by around £62,500. Therefore, 0.5% would mean adjusting the financial gap by

around £312,300 whilst 1% would mean adjusting the financial gap by around £625,000.

- 7.5 The increase in Gwynedd's Council Tax, together with the average increase across Wales since 2013/14, is shown below.

Year	Gwynedd	Wales
2017/18	2.80%	3.10%
2016/17	4.00%	3.70%
2015/16	4.50%	4.30%
2014/15	3.90%	4.20%
2013/14	3.50%	3.10%
Total 2013-18	18.70%	18.40%
Average 2013-18	3.74%	3.68%

In 2017/18, Gwynedd Council's Band D Council Tax level was £1,240.96, while the average level of tax for the counties in Wales was £1,162.

- 7.6 We do not yet know what the exact average increase across Wales will be for 2018/19, but the latest information I have is that the average across Wales will be around 4.7%. Having raised 0.3% lower than the Wales average last year for 2017/18, this year by 2018/19 it is reasonable to raise slightly higher than the average, and adhere to the long-term policy.
- 7.7 The choice between maintaining services and taxation is always difficult, of course, and it is a matter for all members to weigh up and arrive at the balance they consider to be appropriate. However, **as a starting point for discussion, a Council Tax increase of 4.8% is recommended, which would be a weekly increase of £1.15, or £59.57 annually, with a Band D tax of £1,300.53 for 2018/19.**
- 7.8 The following table summarises the relevant totals as the Council sets its budget and tax for 2018/19, on the basis of the above recommendations.

### **Savings to address the 2018/19 Gap**

	£
Approved Efficiency Savings	1,484,650
Approved Cuts	368,460
Further Efficiency Savings	896,430
Total Savings to close the Gap	<u>2,749,540</u>

### **Establishing the Budget and 2018/19 Tax level**

	£
2017/18 Base Budget	231,299,720
Additional Expenditure Requirements	14,312,750
2018/19 Expenditure Requirements before Savings	<u>245,612,470</u>
less Government Grant Income	-175,127,330
less 2018/19 Savings	<u>-2,749,540</u>
Council Tax yield: 4.8% increase	<u>67,735,600</u>

### **Balanced budget for 2018/19**

	£
2018/19 Expenditure requirements before Savings	245,612,470
2018/19 Savings Total	<u>-2,749,540</u>
2018/19 Net Budget	<u>242,862,930</u>
<b>To be funded from -</b>	
Grant Income	175,127,330
Council Tax	<u>67,735,600</u>
2018/19 Net Budget	<u>242,862,930</u>

## 8 BALANCES

- 8.1 It is foreseen that the Council will have general balances of £5.9m at the end of this financial year, representing around 1.5% of the Council's gross revenue expenditure.
- 8.2 We have noted on more than one occasion that due to the turbulent environment we will be facing in the years ahead, that it is appropriate to keep sums in reserve in order to deal with problems that could arise.
- 8.3 Nothing has happened in the meantime to change this opinion, and the Welsh Government's statement about extremely challenging -1% grant settlements for local government in 2019/20 means that the risk continues (if not intensifies). Therefore, the need to ensure that we have appropriate balances to deal with any financial shocks is still relevant (see Part B for the medium term Financial Strategy).
- 8.4 Having committed £1.51m from a specific fund, in order to Finance one-off bids, **it is recommended that we do not use general balances in 2018/19.**
- 8.5 **The Council has a number of specific reserves** established to meet specific expenditure needs. These are also part of the Council's budget of course, and have been scrutinised annually. Attention was given to the specific reserves by the Cabinet on 6 June 2017 and also the Audit Committee on 6 June 2017, when it was approved to transfer over £1m from reserves and provisions towards corporate priorities / requirements. I review the level of these reserves continually, and **it is intended to hold another intensive review by June 2018**, to consider how much scope there will be for the Council to change its priorities within these reserves.
- 8.6 In their report "Meeting the Financial Challenges facing Local Authorities in Wales" (issued 27 January 2014) the Wales Audit Office stated (in paragraph 1.8):
- "Councils can use reserves to help them to balance their budgets where savings plans do not achieve the expected results or where income is less than anticipated. However, financing recurrent expenditure from reserves would not normally be appropriate. A prudent level of useable reserves is a key element of financial stability; the minimum appropriate level will vary dependent on an authority's known and potential liabilities and its spending plans. There are signs that a few councils are over-relying on general reserves to deal with budget shortfalls, rather than seeking more sustainable approaches, which often involve making unpopular decisions."
- 8.7 I am convinced that a one-off use £1.51m from a specific fund to finance one-off bids in 2018/19 is a totally appropriate action, and it is recommended that the Council's balances are not used to balance the 2018/19 budget.

## 9 CAPITAL

- 9.1 Whilst local authority revenue budgets face constraints, capital budgets are also under pressure, and there are revenue implications for capital expenditure which is not funded by specific grants.
- 9.2 In light of the revenue financial constraints we face and the fact that our Asset Strategy includes a significant element of prudential borrowing (which places pressure on the revenue budget to pay for the borrowing costs), a thorough review of the Asset Strategy is already underway.
- 9.3 A proposed programme for 2018/19 individual schemes is set out below:

<b>CAPITAL PROGRAMME FOR 2018/19</b>	
	<b>£'000</b>
Buildings Repair and Maintenance (dealing with the backlog and avoiding further deterioration)	2,477
Fire and Asbestos work	308
Schools Organisation	248
Roads Refurbishment*	1,988
Street Lighting	50
Safety fences on roads	134
Dealing with flooding on roads	100
Playing Fields	35
Vehicle Renewals	93
Transport Feasibility Schemes	100
Cycle Routes	20
Information Technology Renewals	275
Housing Grants	2,000
To be distributed	561
<b>Total</b>	<b>8,389</b>

*\* additional funding expected from Welsh Government*

- 9.4 We will be funding the programme as follows:

<b>Funding capital programme 2018/19</b>	
	<b>£'000</b>
<b>Capital requirements</b>	<b>8,389</b>
<b>To be funded through:</b>	
Capital provision in the settlement	5,898
Other funding*	1,988
Prudential borrowing	503
<b>Total to be financed</b>	<b>8,389</b>

*\* additional funding expected from Welsh Government*

- 9.5 It is intended to establish a new asset strategy from 2019/20 going forward, in accordance with the report presented to Cabinet on 16 January 2018 (see the link below). The new asset strategy will be operational for the period from 2019/20 to 2028/29.

<https://democracy.cyngor.gwynedd.gov.uk/documents/s15599/Item%208%20-%20Report%20-%20Developing%20a%20New%20Asset%20Strategy%20for%20the%20period%202019-20%20to%202028-29.pdf>

- 9.6 The procedure for establishing the next strategy was approved which states that workshops will be held to enable all Council members to express an opinion by the end of May 2018, with the results from the workshops being presented to Audit and Governance Committee for their views by the end of July 2018.
- 9.7 The above table therefore reflects the capital requirements (together with the funding) for setting the 2018/19 budget only as the Council is on the threshold of establishing the new 10 year asset strategy.

## **10 EQUALITY IMPACT ASSESSMENT**

- 10.1 The budget outlined above endeavours to continue to provide appropriate outcomes for all the county's citizens, but as there was insufficient increase in our income to meet inflation, etc, we must implement the savings and cuts schemes approved last year, and set targets for some additional schemes.
- 10.2 With savings, there is a possibility for us to have an impact which would disproportionately affect those with protected characteristics, but there were appropriate impact assessments regarding the financial decisions on the savings and cuts when they were decided upon.
- 10.3 Our aim was to ensure that our financial decisions conform with the requirements of the Equality legislation, namely:
- Eliminate illegal discrimination, harassment and victimisation, and any other conduct prohibited by the Act.
  - Promote equality of opportunity between people who share a relevant protected characteristic and those who do not.
  - Encourage good relations between those who share a protected characteristic and those who do not.

In assessing, we tried to identify how to make the best of every opportunity to improve equality in addition to trying to avoid or mitigate any negative effects to the best of our ability.

- 10.4 In planning our budgets, consideration is given to equality on every level, by utilising data and evidence in relation to demography and trends at a strategic level, and in the same way (but more specifically) in coming to decisions on individual savings schemes. Data and evidence has already been collected for our Equality Strategic Plan, and we will continue to build upon this information by analysing new data, monitoring services and engagement.
- 10.5 We have clear processes for finding savings, which include a full assessment of the impact of savings in terms of equality. We analyse each individual scheme, noting if the department needs to conduct an impact assessment when developing the project. This will be the procedure with further efficiency savings by 2018/19.
- 10.6 The recommended budget does more than meet inflation costs. It also attempts to ensure that unavoidable financial pressures being placed on services (due to greater demands from increasing numbers of clients, etc) are also addressed by making



conscientious and reasonable budgetary decisions (see the additional expenditure requirements in Part 3).

- 10.7 Each service has the right to submit a request for resources if it considers that additional funding is required to ensure that services continue. The sums seen under the "service pressures" heading is recognition that the Council provides sufficient funding to ensure that our financial arrangements do not have a detrimental impact on the level of services provided. Full details are given in Appendix 1 and it can be seen that a substantial part (£987,520) of the total sum (£3,162,990) is going to social care, and £319,000 of that will go towards school pupils' special needs.

## **11 WELLBEING ASSESSMENT**

- 11.1 The Wellbeing of Future Generations Act came into force in April 2016 and the Council's budget has been reviewed looking at social, economic, environmental and cultural issues that are likely to influence the people of Gwynedd in the future.

- 11.2 Main conclusions regarding the 7 well-being goals:

- Prosperous – Neutral
- Resilient - Positive (long-term approach to funding services)
- Healthier – Neutral
- More Equal - Positive (funding 'welfare' services, and progressive taxation)
- Cohesive Communities – Neutral
- Culture and Language – Positive (by funding bilingual services)
- Globally Responsible – Neutral

- 11.3 This budget reflects the following five ways of working that the Council is required to consider when applying sustainable development.

- Looking to the long term - The budget plans for the future, identifying future needs and demand for services, taking a strategic approach to ensure services are sustainable.
- Taking an integrated approach - The budget proposals encourage ways of working with partners, where that's more sustainable.
- Involving the population in decisions – Part of the budget process and savings strategy includes engagement with residents, customers and partners.
- Working in a collaborative way – Where better services can be provided by collaboration, the budget process and savings strategy encourages this.
- Understanding issues and preventing them – The budget process facilitates an understanding of the financial position, so that issues can be tackled at the source.

- 11.4 Regarding efficiency savings schemes and specific cuts, as part of the savings strategy, there will be specific wellbeing assessments for each individual scheme, and consideration thereof in the arrangements for scrutiny and prioritisation of savings to implement.

- 11.5 Generally, coupled with the Council's Plan, this budget supports the Council to realise strategic objectives.

## 12 ROBUSTNESS OF ESTIMATES

- 12.1 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to report on the robustness of budget estimates and the adequacy of the proposed financial reserves.
- 12.2 Budget estimates are based on assumptions of future expenditure and income and contain an element of assumption risk. The impact of this risk can be mitigated through contingency plans, contingency budgets and financial reserves.
- 12.3 The robustness of budget estimates is not simply a question of whether they are correctly calculated. In practice, many budgets are based on estimates or forecasts, and there will be an element of risk as to whether plans will be delivered and targets achieved. Different risks to the budget are considered below:
- 12.4 **Inflation Risk** – This is the risk that actual inflation could turn out to be significantly different to the assumption made in the budget. For 2018/19, inflation has been allowed based on the latest information about pay awards and prices, but there is a risk that inflation will rise again during 2018/19, and uncertainty over the level of the rise. A rise in inflation may add to the Council’s costs, but that could be funded through the use of reserves, if necessary.
- 12.5 **Interest Rate Risk** - Interest rates may affect the budget through the interest earned - i.e. an interest rate rise would increase income. In accordance with the Council’s Treasury Management Strategy, the budget is not reliant on high investment returns. Interest rates continue at a historical low and are not likely to begin increasing until at least 2019/20. Therefore, the interest rate risk is considered low and this is a compensating risk for inflation risk because if one increases the other is likely to increase also.
- 12.6 **Specific Grants Risk** - There are risks attached to the large number of specific grants from WG, Europe or other bodies which support a proportion of Council spending. Some of these may be reduced substantially or cut altogether, and we don’t have a complete picture as the financial year begins. When the grant ceases, so must the associated expenditure, but contract terms may mean that expenditure cannot be cut as quickly as the grant, or severance costs may need to be funded. Further, the activity funded may be so important to the delivery of the Council’s own Priorities that the Council decides to continue with the expenditure. We will mitigate this risk by ensuring that we have the best information available on each grant, but the funding bodies (Government, etc) control this situation.
- 12.7 **Income Risks** – The budget is based on securing a specific increase in fees which is equal in value to the increase in the relevant service costs. If demand for Council Services falls, and income targets are not achieved, that may cause overspending on service budgets. The actual budget position will require careful monitoring during the year and, if necessary, spending may need to be cut back to match reduced income. This will not be possible with some large corporate budgets, where estimated income must be set at a prudent level.

- 12.8 **Savings Risks** – One significant risk in current circumstances is that the Council is over-optimistic regarding the savings that will be achieved. If these projects should run into difficulties and fail to achieve the savings taken out of the budget, significant overspendings could occur. We will mitigate this risk by ensuring that savings schemes are owned by departments and Cabinet members, and by monitoring relevant progress regularly.
- 12.9 **Staff Redundancy Costs** – Some services restructure their staff in order to achieve savings, with staff being released through redundancy. Where appropriate, the cost of redundancies is funded from a central contingency reserve, and an appropriate sum has been earmarked for this purpose, which mitigates this risk.
- 12.10 **Council Tax Premium** – In setting the Council’s Tax base, a prudent assessment was made of the number of second homes and empty properties to include in the calculation. Although the Council does have good records, there is a risk that properties will become ineligible to pay the premium for a number of reasons, including the property being sold or let. Given that this will be the first year for the premium, there is a risk that properties subject to the premium have been over estimated and that the income collected is lower than budgeted. We will mitigate this risk by employing inspectors and by not committing all of the tax yield from the Premium until the situation becomes clearer.
- 12.11 **The Statutory Finance Officer’s Opinion** – Having considered all the risks noted above and the mitigating actions, the Head of Finance (Section 151 Officer) believes that the budgets are robust and achievable.

### 13 CONCLUSIONS

- 13.1 This report sets out the factors that should be considered when establishing the 2018/19 budget and confirms that the savings strategy to cope with the financial position which the Council is facing should continue for 2019/20 and beyond.

### 2018/19 BUDGET

- 13.2 It is recommended to address a revenue expenditure requirement of £242,862,930, having added £11.5m (which includes a provision of £1.55m for pressures on services).
- 13.3 After receiving a grant of £175.13m from Welsh Government and depending on £2.75m of savings, Council Tax income will need to increase 4.8% to £67.74m in order to close the 2018/19 funding gap.
- 13.4 It will be possible to balance the budget via a combination of steps, as follows:

2018/19 Expenditure requirements	£245,612,470
Less Government Grant income	- £175,127,330
Less savings which will have been achieved	- £2,749,540
Council Tax Income	<u>£67,735,600</u>

- 13.5 **This will mean setting a net budget of £242,862,930. An analysis of the budget per service is given in Appendix 2.**
- 13.6 **It is also recommended that a capital programme of £8.389m should be established for 2018/19.**

#### **LONGER TERM STRATEGY**

- 13.7 Regarding the position over the following years, the savings strategy must be continued in order to identify significant options in order to close the funding gap which could be between £8.5m and £13.8m by 2019/20 (probable sum £12m), and then between a further £2.7m and £6.4m by 2020/21 (probable total over two years of £15.9m).
- 13.8 **Therefore, it is recommended to ensure that our procedures are flexible enough in order to achieve up to £20m of savings over the three years 2018/19 – 2020/21.**

## 2018/19 REVENUE BIDS

<b>Bid Details</b>
<b>EDUCATION DEPARTMENT (G.T.)</b>
<p><b><u>3 i 19 Bala Learning Campus - £190,700 One Off</u></b></p> <p>In September 2015, it was decided to "...appoint and finance the Head of the 3-19 Learning Campus from the project savings for at least an year before opening the school in September 2018". However, in June 2017, it was decided to withdraw the offer as, at that time, it would be difficult and inappropriate to implement the proposal in the prevailing circumstances but approval was given for officers to commence a process to identify alternative bids for the school that would address and meet with the requirements of the business case.</p> <p>It is forecasted that the new school will open in September 2019, and accordingly, finance will be required for the period between September 2018 and September 2019. It is proposed that a new head will be appointed 12 months prior to the school opening, with a deputy and business officer appointed in the term before opening.</p> <p><u>How</u> - there is a need to appoint appropriate staff beforehand in order that the remainder of the staffing structure is established, to take responsibility for the comprehensive communication requirement, and to support and lead staff in the current schools. The Head will also play an important role in the process of establishing how the community aspects are developed in the new school.</p> <p><u>Risks</u> - that the new school will not be operational by September 2019 unless the required funding is received.</p> <p><u>Comments</u> – It is suggested that the application is supported to facilitate the success of the scheme. It follows the precedent set in establishing Ysgol Bro Idris.</p>

## **School Taxi Transport - £200,000 One Off**

### ***Taxis and Minibuses***

The report "Revenue Budget Review 2017-18 – Identifying Early Risks" submitted to Cabinet notes:

*"Transport - early forecasts of an overspend of £200k, with £160k on school taxi transport following an increase in the requests since the budget for 2017/18 was set, as a result of changes in circumstances".*

The Second Quarter Revenue Budget Review reports an overspend of £228k. The Department could consider financing the overspend from the schools budget, but it is considered that would be unwise bearing in mind the substantial pressures that are facing school budgets.

An increase has been seen in the net costs of transporting pupils/students since establishing the 2017-18 Budget. This increase is divided into two parts:

**Part 1** – an increase of £160k in the costs since establishing the 2017-18 budget but prior to the commencement of the new academic year in September 2017

**Part 2** – an increase of £126k in the costs since establishing the 2017-18 budget and a net increase since the commencement of the new academic year in September 2017.

The Integrated Transport Unit is undertaking a review into this net increase in the contracts that have finished/started.

How – there will not be an overspend in the Department's revenue budget as the contracts are fully financed.

Risks – failing to meet the needs of "Learner Travel (Wales) Measure 2008".

Comments – It is suggested that the requirement is bridged at £200,000 on a one off basis, with the Education Department financing the remainder and undertaking a review to resolve the matter in 2018/19.

**Additional Support for Additional Learning Needs and Inclusion Pupils - £319,000 Permanent**

The 'Integration' budget has not been increased in real terms since 2010/11 but the requirements for additional support has continued to increase for various reasons.

The Integration budget can be split into two parts:

1. Statemented/ALN Individual Development Plans.
2. Other ALN.

Historically, the service has coped with the increased demand by operating more efficiently and also financing from its "Other" budget heading, but an overspend of £319k is now forecasted.

How – the increased expenditure is already evident, but the budget to finance is yet to be secured.

Risks – if the bid is refused, the service would face a permanent unexpected cut.

Comments – The bid is reasonable and it is suggested that the application be supported.

**Clothing Grant - £17,650 Permanent**

The grant was abolished by the Welsh Government for the 2018/19 settlement and accordingly, assumed that there was an expectation that Authorities would support from within their settlement.

The scheme is important for eligible low income families and the bid has been calculated as follows:

Estimated number of eligible children in 2018-19 144 x £105 (i.e. the government grant) = £15,120

Administration fee £2,533

## **ECONOMY AND COMMUNITY DEPARTMENT (I.T.)**

### **Strategic Economic Development Resources – Joint Financing Fund - £500,000 One Off**

An application to ensure that the Council has a matching budget to attract more external income to execute schemes to develop the county's economy.

£4.9M has been invested to support 35 schemes with a total value of £72.3M. According, for every £1 invested by the Council, nearly £14 has been secured.

In 2013, a £900K fund was established to brief and realise schemes that targeted external funding. A substantial proportion has been committed, with more schemes in need of joint funding than the finance currently available

The Department does not have the funding to develop and co-finance strategic economic schemes.

If the Council does not commit the funds, it will not be possible to secure funds from other sources to realise strategic plans, and we will not be party to sub-regional / regional schemes that could lead to failure to meet local needs.

Comments – It is suggested that the application is supported as the fund also attracts external funding to the Council.



## **ADULTS, HEALTH AND WELLBEING DEPARTMENT (W.G.R.)**

### **Learning Difficulties – Transfer Age - £186,190 Permanent**

Financing the packages of 3 individuals transferring from the Children's Department to the Adults Service (Learning Difficulties). This will include Day Care/Support/Direct Payment Package to meet the needs of the individuals and their families.

How – enable families/carers to continue to care for individuals that have severe difficulties, giving them the opportunity to develop skills with the aim of fostering independence.

Risks – failing to meet the statutory responsibilities of the The Social Services and Well-being (Wales) Act 2014, and the possibility that the domestic situations could not cope, leading to the need for special placements at a much higher cost.

Comments – It is suggested that the application is supported, with the relative teams working closely with the Finance Unit to achieve a better understanding of the transfer costs.

### **Change in the Capital Threshold that forms the basis of Self-Funding Care Service from £30,000 to £40,000 - £250,000 Permanent**

An application following on from the decision of the Welsh Government to increase the capital threshold used for assessing residential/nursing care self-funders from £30k to £40k with effect from April 2018.

How – the financial loss to the Council when the threshold was increased from £24k to £30k was over £200k (the final impact is yet to be ascertained).

Risks – without the additional funding, the budget will be inadequate leading to an overspend situation.

Comments – It is suggested that the application is supported.

### **Registration of Care Workers - £24,560 Permanent and £23,060 One Off**

It is a statutory requirement to maintain a register of care sector workers. Senior staff are already with the Care Council but it is expected that the cost will increase by from £30 to £50. It is now necessary for front line staff to also be registered and it is expected that the fee will be £20 for 2018/19.

It is thus envisaged that there is an additional permanent budget need of £22,400 to register Adults and £2,160 in respect of Children.

This requirement will entail additional training and administration time for staff and it is requested that £23,060 is made available on a one off basis to finance a training officer, with the department financing the administration costs estimated at £23,180 from within its existing budget.

How – to fully respond to the statutory requirements and support the workforce.

Risks – failure to employ staff to maintain statutory care services for the most vulnerable.

### **Increase the Supply and Affordability of Housing- £46,110 Permanent**

The Welsh Government has provided capital resources to assist Authorities provide an additional 20,000 houses. The Council's allocation could increase from £4.3m between 2014-17 up to £15.7m between 2017-20. This creates an opportunity to provide affordable homes but also a challenge as it is necessary to develop plans and prepare applications.

The strategic capacity within the Housing Unit has reduced to 1 officer and in view of other existing additional work, there is a risk that this opportunity will be missed without increased capacity to respond. In addition, numerous other grant programmes have been announced.

There is also an opportunity to benefit from Energy Savings programmes in disadvantaged communities, subject to developing proposals to support applications to realise the schemes.

How – appoint a full time person to ensure that we take full advantage of the opportunity and maximise the available funding to improve and increase the housing stock to meet the local need.

Risks – Lose golden opportunities to increase the housing stock, which is desperately required to transform the service.

Comments – It is recommended that the application is supported.

### **Avoid Homelessness - £202,720 Permanent**

The Housing Act (Wales) 2014 places a statutory obligation on the Council to assist in avoiding homelessness or finding alternative accommodation to those under threat of homelessness. There is a duty to prepare temporary accommodation to those who have become homeless.

There has been an increase in the applicants, and it is expected that this will increase further with changes to the Social Benefits.

The Welsh Government transitional grant received since 2015-16 ceases on 31 March 2018, with the expectation that the funds will be transferred to the settlement in 2018-19. A sum of £213k has been indicated.

This additional funding has enabled the service to employ four full time officers and to provide additional funding such as for advance rental payments and other administrative work.

This is an application to seek continued funding to maintain the service.

How – continue to provide the wide range of services within the homelessness sector.

Risks – failure to fulfil a statutory service and having to accommodate more people in more expensive temporary accommodation.

Comments – It is recommended that the application is supported.

### **Establish Safeguarding and Quality Assurance Team - £84,880 (Second Year Funding)**

A bid was presented in 2017/18 to address the concerns of the Care and Social Services Inspectorate Wales (CSSIW) on the Council's arrangements for safeguarding vulnerable adults. By establishing a team to carry out the new duties where there is insufficient capacity at present. Presented here is the second year of funding to deal with the DOLs backlog to fund two social workers posts.

Comments – Item here for consistency only - already approved in 2017/18.

## **CHILDREN AND FAMILY SUPPORT DEPARTMENT (D.M.)**

### **Children Placements - £170,000 One Off**

Whilst there has been an increase in the number of children in care, most of the increase are placed with their parents or with family arrangements where there is no regular financial commitment. There has also been a number of exceptional high risk or unexpected cases which have had to be accommodated out of county due to those risks:

- 1) Placement for 5 children from the same family following a private court case.
- 2) Residential placement for 4 young people, previously in fostering care, within a short period of time.

How – current placement costs fully commit the budget and restrict the ability to arrange further placements without overspending in addition to realising the savings schemes. The bid is based on the average spending patterns on specific cases over the past 11 years.

Risks – not undertaking placements could lead to a situation where we would not be operating within the law where a risk assessment shows that there is a risk for them to remain at home.

Comments - it is suggested that the application is supported.

## **HIGHWAYS AND MUNICIPAL DEPARTMENT (G.W.G.)**

### **Waste – A Reduction in one Environmental Grant (£430,000) – ESD Local Authority Grant – estimate of 7% - £430,000 Permanent**

How – The bid fulfils the need to ensure the service can maintain the requirement to re-cycle. The re-cycling collections are entirely dependent on the Local Authority Grant and a reduction in the grant without the bid would place a significant strain on the service.

Risks – failure to maintain the service currently afforded to Gwynedd residents and reach the Wales Government re-cycling targets.

Comments - It is suggested that the application is supported.

### **Waste Disposal – Incinerator - £32,520 Permanent**

How – the bid fulfils the need to ensure that we can keep up with the re-cycling demand and reduce the dependency of landfill to dispose of waste. The application includes the cost of managing the regional provision that will totally replace land fill.

Risks – failure to maintain the service currently afforded to Gwynedd residents and reach the Wales Government re-cycling targets.

Comments - It is suggested that the application is supported.

## **ENVIRONMENT DEPARTMENT (D.M.)**

### **Response to the Wylfa Newydd Scheme - £25,000 One Off**

Horizon Nuclear power are preparing an application for Development Control Order (DCO) to develop Wylfa Newydd nuclear power station.

Although the development is based on Anglesey, it will provide an opportunity for the local economy but on the other hand, will present a number of challenges for the Council. The Strategy Project Group has already identified challenges and possible concerns for the County.

There is also concern that developments such as the National Grid Project to upgrade the electricity line between Wylfa Newydd and Pentir, and the proposed third bridge over the Menai could happen at the same time.

There is an opportunity for the Council to comment on the draft DCO document. This will also feed into the Local Impact Assessment the Council will prepare as part of the process. There is a capacity shortfall within the Council to cope with the substantial work of preparing responses to this documentation.

It is essential that the Council prepare comments to influence the application for the benefit of Gwynedd residents, but at the same time to protect the interests of the Council and residents and to mitigate any negative effects. It is accordingly necessary to obtain external support to co-ordinate the Council's response and to prepare a Local Impact Assessment. (The support to present the DCO application will not include support for the public enquiry).

How – the consultant is chosen on the basis that he will undertake work on behalf of Anglesey in connection with Wylfa Newydd, and accordingly conversant with the project and possible challenges. He will support officers, assist to co-ordinate the Council's response, and assist with preparing evidence that will support the Council's standpoint where necessary.

Risks – that the Council will not be in a position to fully respond and not best placed to respond to the substantial development challenges.

## **CORPORATE SUPPORT DEPARTMENT (M.R.)**

### **Learning and Corporate Development Fund - £405,000 One Off**

The Learning and Corporate Development Fund has been fully taken up and thus, an application is made to finance corporate training for 3 years, an annual cost of £135k.

Comments – It is suggested that the application is supported.

## **FINANCE DEPARTMENT (P.J.)**

### **Council Tax Inspector - £52,600 Permanent**

In the light of the Council's decision to place a 50% Council Tax premium on second homes and long term vacant properties, there is need to strengthen the arrangements to validate statement by owners, as there is concern that some property owners will try to use various means to avoid paying the premium.

Forecasts suggest that the Premium could realise approximately £2m - £3m for the Council, but there is need to invest in the collection resources to ensure that the income is maximised.

How – it is proposed that two additional inspectors are appointed who would concentrate on aspects relating to the collection of the Premium, making inspections and conducting reviews and desktop enquiries. The application also includes the cost of financing an increase in the salary scale of a taxation officer that will undertake the additional supervision duties.

Risks – it would not be possible for the Council to verify the statements made by property owners, otherwise in means that the imposing of penalties would have to be suspended although they were payable.

Comments – It is suggested that the application is supported.

## 2018/19 CAPITAL BIDS

### Bid Details

#### ECONOMY AND COMMUNITY DEPARTMENT (I.T.)

#### **Voluntary Development Fund - £40,000**

Communities face challenges and opportunities as they respond to social, cultural and economic changes that impact on them. A number of voluntary groups respond to the challenges by maintaining assets and local activities. A number of voluntary groups also respond to these opportunities by developing new schemes – specifically at present the transfer of assets from the public sector to community management.

Over the past 2 years, the Council, through the Capital Voluntary Development Fund has supported some communities to develop schemes that have responded to the effects of the savings schemes and the strategic plan.

How – by providing grants to voluntary groups across the county to develop and realise community projects. Specifically supporting projects relating to the transfer of assets and investing in local community assets.

Risks – that the Council will not have resources to direct groups that are responding to the savings / cuts agenda.

Comments – The Voluntary Development Fund is a capital fund, and the department also had a £70k revenue fund. It is suggested that the sum allocated be reduced to £40k for next year and thereafter, warn that the financial situation could entail a further reduction (perhaps to £0k) in the following year.

### **Padarn Country Park, Llanberis Safety Measures - £50,000**

An application to enable the Council to respond to the risks exposed at Vivien Quarry and Dinorwig Woodland. Inspections of the ruins at Vivian Quarry have highlighted the instability of the structures, with the need to develop a Tree Management Scheme for the Park to assess the risks.

How – the additional resource will enable the department to respond to the risks by:

Vivian Quarry (Cost of approx. £35k)

1. Assess the condition of the Vivian Quarry buildings/structures
2. Prepare a Risk Assessment, and identify measures to alleviate
3. Implement urgent measures

Dinorwig Woodland (Cost of approx. £15k)

1. Prepare a Tree Assessment
2. Prepare a Risk Assessment, and identify measures to alleviate
3. Implement urgent measures.

Risks – failure to respond to foreseeable dangers and accordingly, risk of serious injury at the site, together with the possibility that the Council is failing in its duty of care to those who walk on the site.

### **HIGHWAYS AND MUNICIPAL DEPARTMENT (G.W.G.)**

#### **Council's Fleet Fuel Tanks - £150,000**

Renewal work is required shortly at 3 locations to ensure anti-pollution measures are in place where the Council has fuel storage tanks, that is at Afonwen, Cibyn and Ffordd Bala Depot, Dolgellau.

How – procurement of tanks, drainage, and anti-pollution measures that reach the statutory requirements.

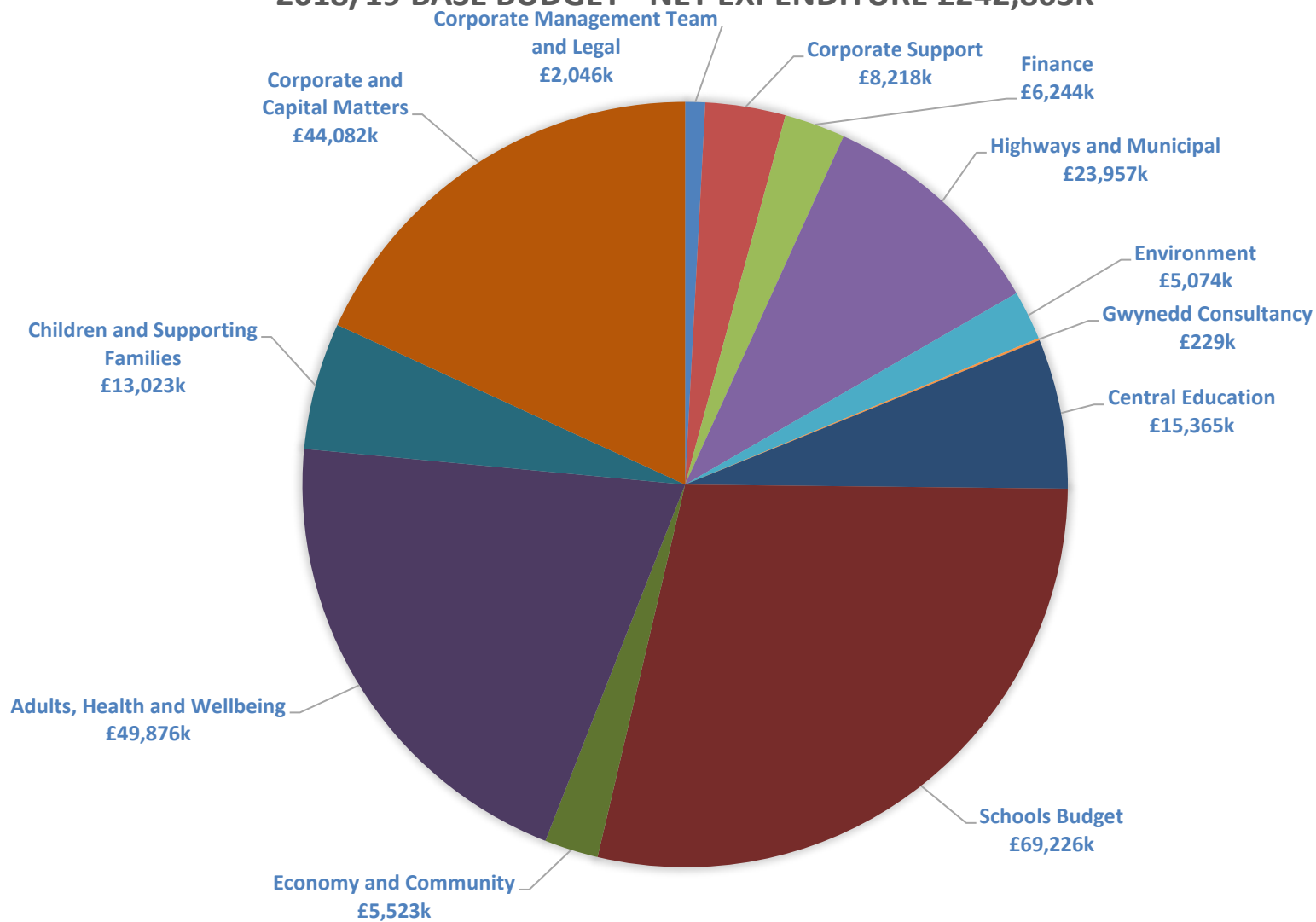
Risks – failure to comply with Anti-pollution Regulations (fuel storage) 2016.



**APPENDIX 2 (a)**

<b>PROPOSED BUDGETS BY SERVICE 2018/19</b>											
	Base	Inflation	Increments	Levy and	Demography	Transfer	Income	Various	Pressure	Savings	Base
	Budget		and	Interests on		to the	Budgets	Budget	on	&	Budget
	2017/18		Pensions	Balances		Settlement		Adjustments	Services	Cuts	2018/19
<b>DEPARTMENTS</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Corporate Management Team and Legal	2,021	49	5	0	0	0	(10)	(5)	0	(14)	2,046
Corporate Support	7,581	170	59	0	0	0	(15)	65	405	(47)	8,218
Finance	6,073	170	12	0	0	0	0	(24)	53	(40)	6,244
Highways and Municipal	20,539	967	(7)	0	0	1,958	226	(105)	466	(87)	23,957
Environment	5,096	199	(7)	0	0	0	(65)	(34)	25	(140)	5,074
Gwynedd Consultancy	240	9	(1)	0	0	0	0	(19)	0	0	229
Central Education	13,947	241	3	0	0	0	0	536	727	(89)	15,365
Schools Budget	69,340	1,496	(8)	0	(225)	0	0	(645)	(299)	(433)	69,226
Economy and Community	5,305	167	16	0	0	0	0	(67)	500	(398)	5,523
Adults, Health and Wellbeing	45,261	2,085	38	0	0	2,902	(100)	(190)	795	(915)	49,876
Children and Supporting Families	12,704	325	20	0	0	218	0	(164)	170	(250)	13,023
<b>Departmental Total</b>	<b>188,107</b>	<b>5,878</b>	<b>130</b>	<b>0</b>	<b>(225)</b>	<b>5,078</b>	<b>36</b>	<b>(652)</b>	<b>2,842</b>	<b>(2,413)</b>	<b>198,781</b>
Corporate and Capital Matters	46,242	641	341	66	458	0	0	(1,917)	(207)	(337)	45,287
<b>TOTAL =</b>	<b>234,349</b>	<b>6,519</b>	<b>471</b>	<b>66</b>	<b>233</b>	<b>5,078</b>	<b>36</b>	<b>(2,569)</b>	<b>2,635</b>	<b>(2,750)</b>	<b>244,068</b>
Less Community Council Precepts	(1,995)										(1,995)
<b>TOTAL GROSS EXPENDITURE</b>	<b>232,354</b>	<b>6,519</b>	<b>471</b>	<b>66</b>	<b>233</b>	<b>5,078</b>	<b>36</b>	<b>(2,569)</b>	<b>2,635</b>	<b>(2,750)</b>	<b>242,073</b>
Financed by:											
Balances and Specific Reserves	(1,055)	0	0	0	457	0	0	250	1,138	0	790
<b>NET TOTAL =</b>	<b>231,299</b>	<b>6,519</b>	<b>471</b>	<b>66</b>	<b>690</b>	<b>5,078</b>	<b>36</b>	<b>(2,319)</b>	<b>3,773</b>	<b>(2,750)</b>	<b>242,863</b>

### 2018/19 BASE BUDGET - NET EXPENDITURE £242,863K



**A MEDIUM TERM PLAN TO ADDRESS THE FINANCIAL GAP 2018/19 - 2020/21****Introduction**

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 balance the 2018/19 budget without having to decide on any additional cuts which would have an impact on the people of Gwynedd. Not every Council is in a position to do this.
2. In order to continue on this course, in addition to establishing a budget for 2018/19, an effort has also been made to project the financial situation for the following two years, so that we can set the 2018/19 position in its wider context and plan how we are going to meet the challenges ahead.
3. The grant figure we will receive from the Welsh Government is the most uncertain figure for 2019/20 onwards. As the grant finances 72% of the Council's net budget, clearly this figure is key to the projections. We know from the statement of the UK Government's Chancellor, and the statements made by Mark Drakeford, Cabinet Secretary for Finance in the Welsh Government, that there could be a challenging future ahead for local government in Wales. I elaborate about this in parts 10-14 below.
4. The second fan chart (in part 18 below) for the next three years sets out a realistic and prudent picture of what could lie ahead for us.
5. Unlike some other authorities, assuming that we will be able to increase Council Tax by 4.8% and realise the additional efficiency savings, implementing the agreed savings schemes and cuts (adopted by the Council in March 2016 and amended by the Cabinet since then) will be sufficient in order for Gwynedd Council to balance the budget without deciding on additional cuts by 2018/19.

**Background / Summary**

6. Since the 2017/18 – 2019/20 Financial Strategy was decided upon in February 2017, detailed work has taken place to re-assess likely budgetary commitments and assess a range of possibilities. In order to identify the financial challenge for the new 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 possible financial scenarios for 2018/19 - 2020/21.
7. These financial scenarios were presented to the Council in the format of a fan chart (probability funnel) in a number of meetings in May - July 2017, including a presentation to elected members at their welcome day on 9 May, members training on the Council's budget on 7 June and 5 July, and in the formal Cabinet meeting on 18 July. The fan chart presented possible financial scenarios for the Council in order to identify the probable need for savings (or 'funding gap') up to 2020/21.
8. Our forecasts constantly predicted that there was a possibility of being able to cope with the 2018/19 financial position by harvesting ongoing savings, but by 2019/20 – 2020/21 further savings would be required. I confirm that this is true for 2018/19, and will continue to be a possible scenario by 2019/20 and 2020/21, when the Council could face a funding gap of around £16m. Therefore, the savings strategy already agreed upon for 2019/20 should continue.

9. Further, the final figures are in hand for 2018/19, and it appears the budget could be balanced by harvesting the savings in progress, together with an increase of 4.8% in the level of Council Tax – which will be around the average level of increase in Welsh local authorities, as suggested in the previous assumptions in the medium term financial plan for 2017/18 - 2020/21.

### **Government's Grant Assumptions for 2019/20 and beyond**

10. As 'central' grant 'settlement' funds around 72% of the Council's net budget, this element is key whilst attempting to project the financial position. A combination of economic and political factors decide how much grant we receive – the state of the economy, expenditure and taxation policies, and the UK and Welsh Government's preference options.
11. In order to update the projection of what might happen, we have used the latest information available to us now, including Welsh Government's final settlement for 2018/19 with an indicative figure of -1% for 2019/20, and the UK's public spending predicted in the Chancellor's latest Budget.
12. The Welsh Government, in the provisional settlement statement, had bound the 2019/20 indicative settlement to a threat of £3.5 billion in public spending cuts from the UK Government's efficiency review. Mark Drakeford's letter in October declared:

*"A further reduction of 1.5% is the indicative settlement for the following year. This includes the effect that the £3.5 billion of unallocated cuts the Chancellor of the Exchequer intends enforcing in 2019/20 will have on the Welsh Government's budget."*

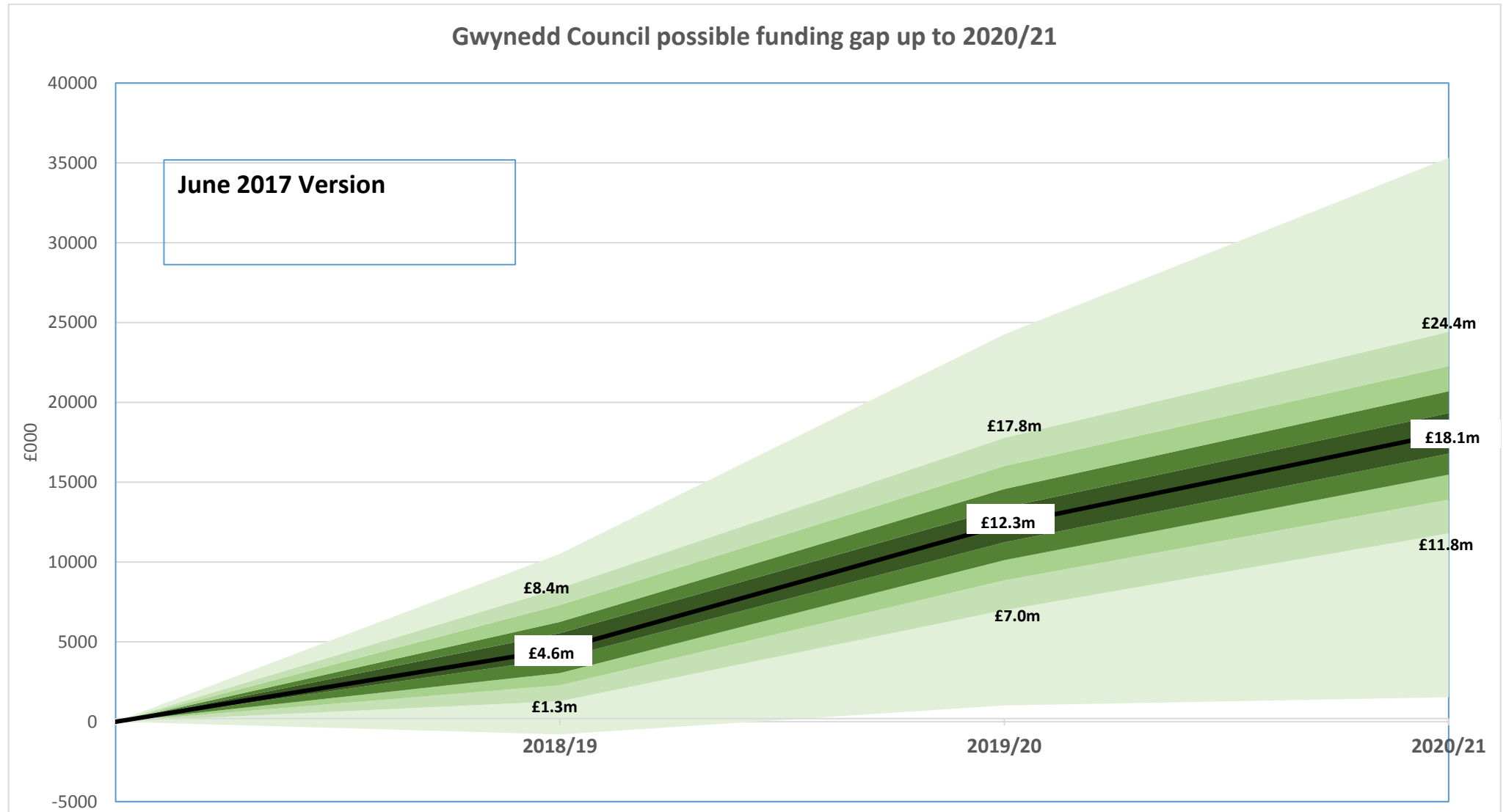
13. It now appears that the UK Government will not be implementing the efficiency review / threat of £3.5 billion on public spending, and therefore there will not be any negative 'consequential' for the Welsh Government's budget. Knowing these implications, i.e. that the Welsh Government will have considerable flexibility regarding its budget, Welsh local authorities should make a joint effort to ensure a positive settlement by the Welsh Government for 2019/20, rather than a grants cut of "-1%", which would reduce Gwynedd Council's grant by £1.75m.
14. Despite that, in the meantime, with so many uncertain economic and political factors, the Council must plan prudently for a range of possible scenarios. In order to model how much might be allocated to local government in Wales, for the forecasts in this report we have made reasonable assumptions about the situation of relevant UK Government departments, the impact of the Barnett formula, and the discretion of the Welsh Government (how much 'protection' they'll give to Health and other projects).

### **The Council's Expenditure Requirements**

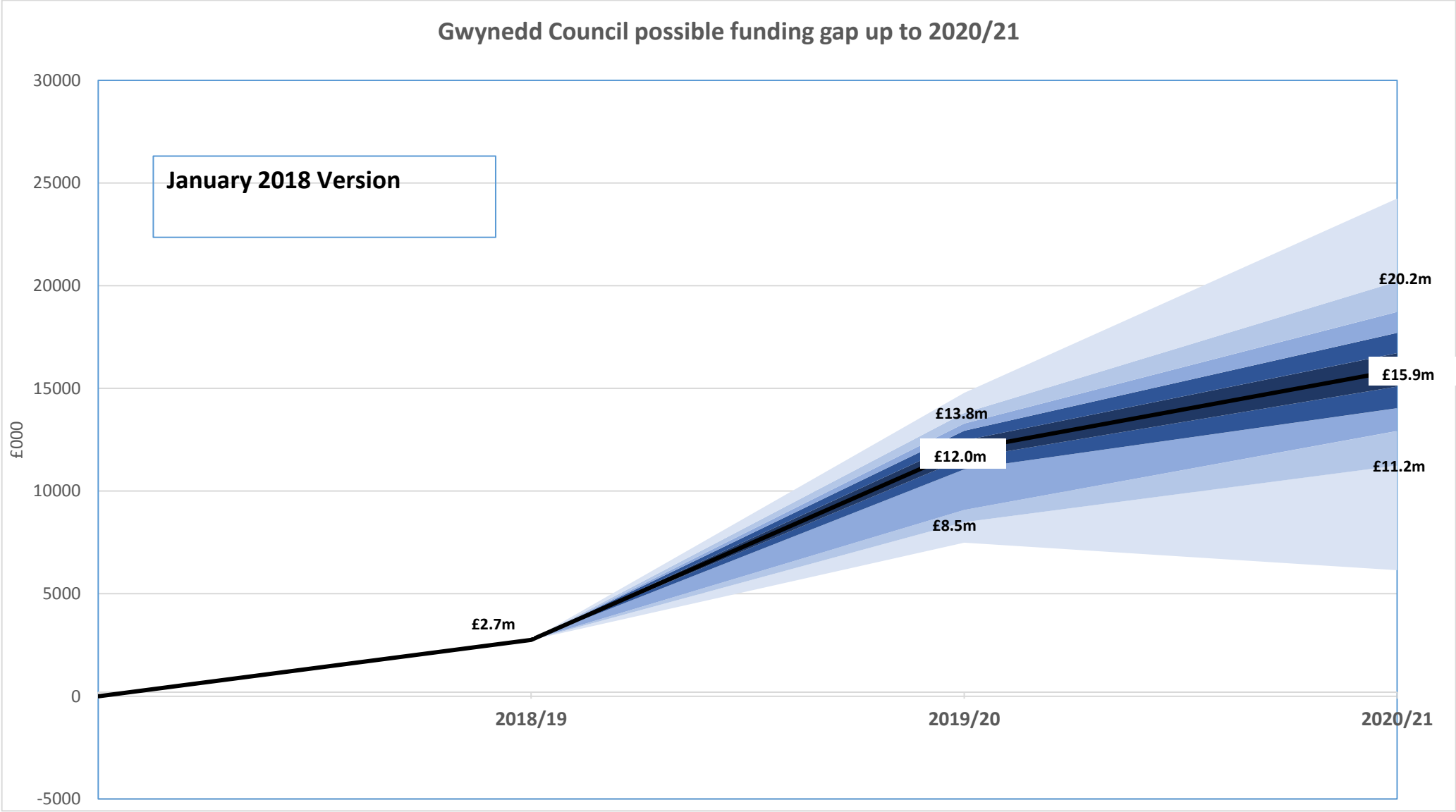
15. The most recent financial information regarding the Council's expenditure requirements for the 2018/19 budget was prepared based on true 'inflation' (a specific level of inflation on wages and other budgets) and relevant trends, together with the 'pressures on services', including demography (pupil numbers statistics and the number of older people) and bids for inevitable growth in expenditure, net of possible adjustments in order to minimise the requirement on the budget. We have also reviewed a number of expenditure headings (mainly corporate) in order to tighten the budget where possible, in order to minimise expenditure requirements.
16. However, as a result of the recent proposal of 2%+ in 2018/19, and another 2%+ by 2019/20, as a national pay agreement for local government staff, we have had to review our pay inflation forecasts to a substantially higher level. We have also increased the level of other inflation, and have reviewed the forecasts for service demand. Of course, the basis of the forecasts are less dependable whilst forecasting further into the future.

## Possible Scenarios – the need for savings

17. In meetings in May - July 2017, a combination of possible scenarios were presented in the form of the following fan chart, showing results in 10% bands.



18. By now, we have updated the projections of what could happen, and the possible scenarios are shown in the following revised fan chart.



## **Possible 2018/19 Funding Gap**

19. As part of the past savings regime, savings of £ 2.75m have already been planned to be realized during 2018/19 (with further small savings in 2019/20 and 2020/21), which are a combination of savings and cuts which have already been approved by the Council / Cabinet (£1.85m for 2018/19), as well as achievable savings that are underway yet to be approved (£896k for 2018/19). After reviewing expenditure and achieving £2.75m of savings by 2018/19, raising a Council Tax by 4.8% will balance the budget.
20. As noted in the report on the 2018/19 budget, implementing the savings schemes which have already been agreed will be sufficient for Gwynedd Council to balance the budget without making any new decisions on additional cuts by 2018/19. However, there is a need to prepare for a significant challenge in the following two years (2019/20 and 2020/21).

## **2019/20 and 2020/21 Savings Strategy**

21. In accordance with the Council's normal financial planning arrangements, as the yield of our previous savings regime ends in 2018/19, the Council has begun to plan for additional savings that we will need from 2019/20 onwards. For the purposes of medium term financial planning, we have produced a range of possibilities for the next three years. This has produced over 46,600 different scenarios which are simplified in the fan chart above (part 18).
22. While the 2018/19 position can be balanced, there is a significant challenge ahead for the Council over the following 2 years, and the fan chart shows that a savings strategy will be required to find a possible total of say £16m by 2019/20 and 2020/21. We must continue with the planned procedure to identify savings and cuts, while pressing on the Welsh Government to provide a grant settlement without any cuts for 2019/20 and beyond.
23. It is possible that the outcome will be outside our 'best / worst case scenarios' on the chart, but if the 'central' case scenario happens, £12m of additional savings will be required by 2019/20 and a further £4m by 2020/21 (total of £16m). By disregarding the most peripheral 10% of results, the total three-year gap can range between £ 11.2m and £ 20.2m. Therefore, our arrangements need to be flexible enough to be able deliver up to £20m of savings.
24. The procedure for identifying future savings was reported to the full Council meeting on 5 October 2017, when the Cabinet Member for Finance noted that the Council remained in challenging times. He reminded Council that the achievement of the Gwynedd Challenge savings was almost complete, and it had been a successful means to find the necessary savings, but now there is a need for a new savings regime for the future.
25. The full Council on 5 October received a presentation by the Chief Executive. He noted that the Council had been finding savings since 2006, in order to meet the effects of inflation and pressure on services. With the impact of UK Government cuts continuing, it was increasingly apparent that we need to be started planning for savings to be implemented from 2019/20 onwards.
26. He explained that Finance officers had projected a number of financial situations (above), and that the Cabinet would decide on differential savings targets for Council departments, in order to meet the most likely situations. The heads of department would then present potential savings to meet those targets, so that the Scrutiny Committees can challenge those plans on behalf of the people of Gwynedd.
27. After Members have had the opportunity to voice their views in appropriate Scrutiny Committees and workshops over the summer of 2018, a public consultation would take place, before proceeding to determine and implement the final savings plans to be implemented annually from 2019/20 and onwards.

28. Following the presentation to the full Council on October 5, members noted that the picture appeared very serious and that there was a collective responsibility to make the most of the situation and to take part. Members asked if there would be a 5% limit on the Council tax increase. The answer was that a 5% tax increase would mean only an extra £3.5m to the Council's coffers, an amount that would not meet inflation, and it is possible that a local authority somewhere in Wales will face the pressure to breach 5% this year, as the financial situation was extremely vulnerable in some places.
29. A question was also asked, as some of the Council's services were already under severe pressure, where was the line where it was not possible to make further cuts? It was concluded that it was not yet clear where that line was, but it will be necessary to ensure that all waste elimination and other efficiency options have been detected and exhausted before it arrives.
30. Whatever the future grant 'settlements' will be, that will not change our ability to discover more efficiency savings. Therefore, we should keep to our present strategy which includes maximising such savings, and dealing with any additional funding gap (which will become clearer during 2018/19) by implementing cuts in 2019/20 and beyond.

### **Medium Term Financial Plan for 3 years**

31. Ideally, the Council would prefer to implement a financial strategy over 4 or 5 years. Unfortunately, that is totally unpractical, as Welsh Government has provided a settlement for one year, and an extremely challenging indicative figure for one following year (considering the flexibility that they have).
32. Therefore, it is sensible to deal with the 2018/19 budget now, and continue with the savings strategy to respond in detail by the following two years (2019/20 and 2020/21) when we will have identified the relevant funding gap with more certainty.
33. In the meantime, **we need to ensure that our procedures are flexible enough in order to realise up to £20m savings over the three years 2018/19 - 2020/21. With this in mind, it is recommended to continue with the current savings strategy where the Cabinet will decide on different targets for the Council's departments, the heads of department presenting possible savings to meet those targets, and the scrutiny committees challenging the plans on behalf of the people of Gwynedd, before a public consultation on options to be implemented annually.**
34. Within this regime, we will continue to implement consistent principles regarding considering an increase in the Council Tax similar to the average increase in Welsh local authorities, maximising the efficiency savings that can be achieved (in order to avoid further cuts) and implement cuts only as necessary, in order to meet any remaining balance of the funding gap.