



## **MEDIUM TERM FINANCIAL PLAN**

**2019/20 - 2021/22**

## **1. Introduction**

- 1.1 The Medium Term Financial Plan (MTFP) puts in place a strategic guide to the Council's spending plans over the next three years to support the Council's priorities within the context of balanced annual budget; the current MTFP covers the period 2019/20 to 2021/22.
- 1.2 The MTFP forecasts the future financial outlook for the Council based on a number of assumptions, setting out indicative revenue and capital budgets including projections of the likely level of council tax and council balances.
- 1.3 The Council is operating within a context of unprecedented pressure on local authority budgets. Medium term financial planning is taking place against the background of significant funding cuts for Local Government. In addition, the Council, in common with most local authorities, continues to be at risk from unfunded financial pressures, including workforce management, waste management, and demand for social care and welfare reform.
- 1.4 Reviewing the MTFP remains essential to ensuring the Council's medium term financial sustainability. The Council will have to make very difficult choices in the years ahead about which services to prioritise. In order to avoid cuts to services, the Council continues to explore alternative options of service delivery to ensure that services remain fit for purpose in the context of smaller budgets. This may mean revisiting the expectations of residents in order to prioritise services for the most vulnerable. It is also an opportunity to work with partners and neighbouring authorities to maintain and improve outcomes against a back drop of reducing public spending

## **2. Principles which guide our MTFP**

- 2.1. The MTFP recognises that the overall level of funding from the Welsh Government will continue to fall for the foreseeable future. It sets out the broad issues that will impact on the Council's financial position for 2019/20 and over the medium term. It highlights the financial parameters for the next few years and takes into account the following:
  - Council Plan
  - Internal Financial Context
  - External Economic Factors
  - Funding the Capital programme
- 2.2 If the Council is to deliver on its priorities and maintain financial stability over the medium term, it will need to continuously deliver efficiency savings and generate additional income. The MTFP links all of the above with the Council's Reshaping Programme to deliver a sustainable financial position.

## **3. Council Plan**

- 3.1 The Council Plan is the overarching plan that helps the Council to focus its resources and drive improvement. It sets out where we will focus our energies and our increasingly limited resources and how we will judge our performance. The Council Plan 2018- 22 was approved by Council in

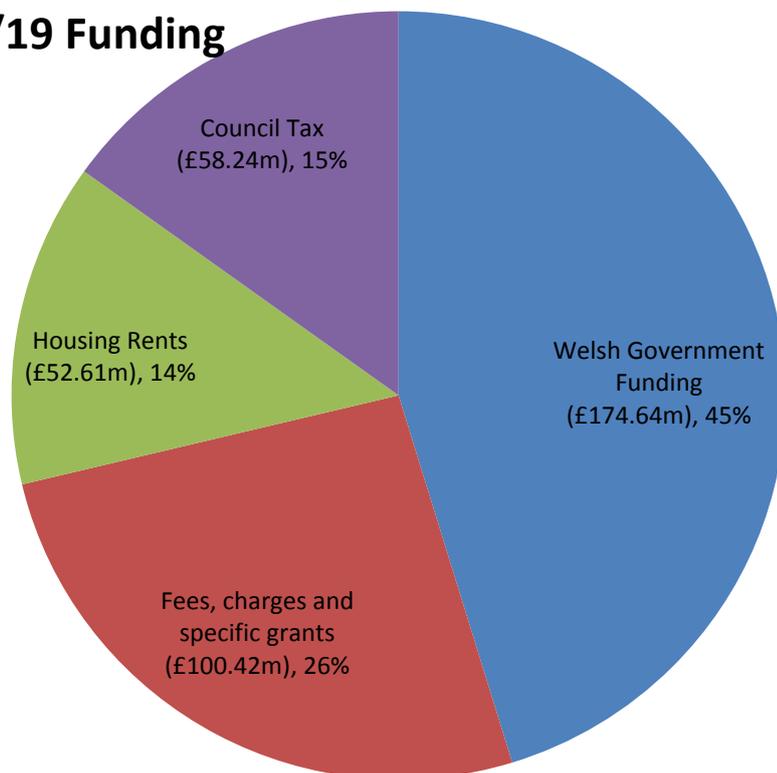
February 2017. The framework for the Council Plan has been reviewed to reflect the changing statutory context within which the Council works.

- 3.2 The **vision** is ‘the Council as a strong and inclusive community leader’.
- 3.3 The **purpose** is to ‘ensure that Wrexham and its people are supported and enabled to fulfil their potential, prosper and achieve a high standard of well-being’.
- 3.4 The **principles** that will be considered in the planning and delivery of all services are that:
- Look to **Prevent** problems first – stop problems arising; don’t create new problems
  - Prioritise the most **vulnerable** – reduce inappropriate variations in outcomes through evidence based approaches
  - Plan for the **long term** – preserve our natural resources
  - Consult and **involve** local people in planning and delivering services
  - **Integrate and collaborate** – with colleagues; with partners
  - **Welsh language** – services and information to be equally available in Welsh and English
- 3.5 The vision, purpose and principles set out how we will seek to plan and deliver services and we will need to consider how they will balance against each other in different service areas.
- 3.6 The Council Plan is the means by which the Council agrees its well-being objectives as required by the Well-Being of Future Generations (Wales) Act 2015.
- 3.7 Since 2012 the Council Plan has focused on four overlapping and interconnected themes: Economy, People and Place and Organisation. These themes are well embedded across the organisation’s structure and working practices. The themes also reflect the four aspects of sustainable development as set out within the Well-Being of Future Generations (Wales) Act: economic, social, environmental and cultural well-being.

#### **4. Internal Financial Context**

- 4.1 In 2018/19 the Council’s net revenue budget requirement to be met by the council tax payers was £58.2 million (net of government grants, rents, interest and fees and charges.)
- 4.2 The Council tax base calculation for 2018/19 was 53,280 band D equivalent properties. The overall tax base is built up from the same calculations for each of the 34 community areas. To calculate the tax base for an area, the number of dwellings in each council tax band is adjusted to take account of any discounts, premiums or exemptions.
- 4.4 The Council’s 2018/19 budgeted gross expenditure is £385.91 million. This expenditure is supported by rent, fees and charges as well as by formula government grant and council taxpayers as shown below in the chart:

## 2018/19 Funding



### 5. External Factors

- 5.1 The Council's MTFP is set within the context of the impact of the national economy, population growth and demographic trends which can cause increases in demand or expenditure pressures in areas such as education, housing, social care and waste disposal.
- 5.2 Inflation
- 5.2.1 Inflation is an important component when setting the MTFP; prices for goods and services tend to increase in line with rate of inflation as measured either by the Retail Prices Index (RPI) or the Consumer Prices Index (CPI).
- 5.2.2 CPI inflation fell to 2.1% in December 2018. The Bank of England's February Inflation Report states that the fall over the past year has been partly due to the diminishing effects of the referendum-related sterling depreciation. CPI inflation is expected to dip temporarily below 2% in the coming months, mainly reflecting lower energy price inflation, before rising back above the 2% target in 2020 and remaining a little above 2% as domestic inflationary pressures increase.
- 5.2.3 The Council's current policy is to increase fees and charges at least in line with inflation, if not higher, in order that we increase the proportion of a service financed by the users rather than through the council tax or housing rents. In accordance with the Council's Cost Recovery Policy officers are encouraged, where possible, to levy a charge that covers the full economic cost of providing the service. In setting the budgets, officers are expected to maximise income where there is capacity in the market and at the same time must be mindful of the charges levelled by our competitors.

### 5.3 Interest Rates

5.3.1 The medium term outlook for the UK Economy is dominated by the negotiations to leave the European Union (EU) and so the long term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

5.3.2 With its inflation-control mandate in mind, the Monetary Policy Committee (MPC) raised official interest rates to 0.75% in August 2018. The latest forecasts from our Treasury advisors suggest that the base rate will increase to around 1% by the end of 2019. The MPC has also emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

### 5.4 Population

5.4.1 Population projections give an indication of what might happen in coming years, and not just in terms of housing requirements and changes in the labour supply, but also how they will impact on other aspects of service delivery. Population projections provide estimates of the size of the future population and are based on assumptions about births, deaths and migration. The assumptions are generally based on trends in recent years and as a result the projections become less certain the further they are carried forward.

5.4.2 Demographics of the County Borough directly impact on a number of Council services, including pupil numbers, population age profile and number of properties; whilst also affecting the funding the Council receives from the Welsh Government.

5.4.3 The midyear estimates (MYE) of population were released by the Office of National Statistics (ONS) on 28 June 2018 and considers the change in population between 2016 and 2017. The overall population of Wales is now 3,125,165, an increase of 12,105 people (0.4%) since 2016. The greatest increases are in the Vale of Glamorgan (1.4%) and Newport (1.3%) and greatest decreases are in Ceredigion (-0.8%).

	<b>2016</b>	<b>2017</b>	<b>Change</b>	<b>% Change</b>
Wrexham	135,408	135,571	163	0.12
All Wales	3,113,150	3,125,165	12,105	0.39

5.4.4 Comparing the midyear 2017 estimates to the 2017 population projection (2014 based) there has been an overall increase on the projected estimates for Wales of 8,794 people (0.28%). However, there has been a decrease on the projected estimates for Wrexham of 2,965 people (-2.14%).

	<b>Projections (2014 based)</b>		<b>MYE</b>	<b>Difference (2017 Projected to MYE)</b>	
	<b>2016</b>	<b>2017</b>	<b>2017</b>	<b>Number</b>	<b>%</b>
Wrexham	137,927	138,536	135,571	-2,965	-2.14
All Wales	3,108,054	3,116,371	3,125,165	8,794	0.28

## 5.5 Pupil Numbers

- 5.5.1 At January 2018, Wrexham's total school population (not including nursery pupils) stood at 17,303 pupils. The latest pupil projections prepared by the Education Department indicate that the numbers are likely to increase. For the period 2019 to 2023 the number of school pupils is likely to increase by 2.2% (385), see Table below Pupil Forecasts 2019 – 2023.

### **Pupil forecasts, 2019 - 2023**

School Type	Pupil Numbers					
	Actual	Forecasts *				
	January 2018	January 2019	January 2020	January 2021	January 2022	January 2023
Primary	11,325	11,299	11,218	11,160	11,069	10,931
Secondary	5,978	6,178	6,453	6,641	6,802	6,931
ALL	17,303	17,477	17,671	17,801	17,871	17,862

\* The projections do not include Nursery and SEN pupils, Local Development Plan Growth (projected as 7.7%) or any allowance for immigration.

## 6. **2018 Budget Statement**

- 6.1 On 29 October 2018 the Chancellor, Phillip Hammond announced his Autumn Budget. The main points from the Chancellor's Speech were:

### *Economic Forecasts*

- On GDP growth, the Office for Budget Responsibility (OBR) expect growth to be resilient across the forecast period, improving next year from the 1.3% forecast at the Spring Statement to 1.6%, then 1.4% in 2020 and 2021; 1.5% in 2022; and 1.6% in 2023 (Although this is still quite weak in historical terms and compared to OECD partners)
- The Chancellor said that with regular pay growth at 3.1%, its strongest in almost a decade and inflation forecast to average 2% next year, the OBR is forecasting sustained real wage growth in each of the next five years.
- The deficit is due to be less than 1.4% next year, falling to 0.8% in 2023/24. Borrowing will fall to its lowest structural level for 20 years.
- National debt peaked in 2016/17 at 85.2% of GDP and then falls in every year of the forecast from 83.7% this year; to 74.1% in 2023/24.

### *Public Spending*

- Phillip Hammond said the OBR confirms a "significant improvement" in the public finances so he can set out a new path for public spending.
- Next year there will be a full spending review, but he is setting out a five-year path for additional departmental spending.

- In 2015 real spending growth was negative and next year it will be positive. He claims the “deal dividend” [from Brexit] will provide even more money for departments.
- The NHS is the public’s number one priority and the government will increase its budget by £20.5 billion after inflation by 2023-24.
- Within this, the NHS will increase mental health spending by more than £2 billion a year by 2023-24.
- The NHS 10-year plan will include a new NHS crisis service, he said. Children and young people’s crisis teams will be available in all parts of the country
- There is more money for councils. They will be able to get more money from the social care precept. A green paper on the future of social care will soon be published.
- But councils face immediate problems. So today he will make £650m available for English councils in 2019/20.
- And £84m will be invested over five years to expand programmes for children in care
- Also announces a £400m in-year bonus to help ‘schools buy the little extras they need’.
- £420m will be made available “to tackle potholes, bridge repairs, and other minor works in this financial year”.

### *Regional Policy & Devolution*

- Scotland, Wales and Northern Ireland will all get more money to spend in devolved areas, including education, health and housing. This Budget means:
  - over £950 million more for the Scottish Government through to 2020-21
  - over £550 million more for the Welsh Government through to 2020-21
  - over £320 million more for a Northern Ireland Executive through to 2020-21
- There will also be £150 million for a Tay Cities Deal, £120 million for a North Wales Growth Deal, £350 million for a Belfast City Region Deal and opening negotiations on Derry/Londonderry and Strabane City Region Deal.

### *Housing*

- A further £500m for the Housing Infrastructure Fund, to ‘unlock’ 650,000 homes.
- From today in England the government is lifting the cap on the amount of money local authorities are able to borrow to build housing.
- The Welsh Government is also taking immediate steps to lift the cap in Wales.

### *National Living Wage*

- The National Living Wage to increase from £7.83 to £8.21 in April next year i.e. a 4.85% increase.

## *Implications for the Welsh Government Budget*

The Welsh Office Press Release referred to an additional £550m for Wales. The Welsh Government's Press Release broke this down as £486m revenue (for 2018-19 and 2019-20) and £68m capital (between 2018-19 and 2020-21), so around £554m altogether.

As ever, for local government in Wales the financial implications depend on decisions made by the Welsh Government in allocating resources.

### **7. Historical Financial Challenge**

- 7.1 The Council anticipates that the funding it will receive from Welsh Government will continue to reduce year on year, yet our costs will increase due to pay awards, inflation and other pressures and due to increased demand for our services, hence the drive to make further savings.
- 7.2 Over the last eight years the Council's funding gap (the difference between net expenditure and funding) has been bridged by making the following savings:

#### Annual Savings

	Annual Savings 2011/12 - 2018/19							
	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	017/18 £'000	2018/19 £'000
Net Expenditure	216,068	215,434	233,334	238,111	232,240	229,073	229,461	237,659
Funding	208,608	211,890	230,048	227,333	223,120	224,069	225,324	232,872
Savings	-7,460	-3,544	-3,286	-10,778	-9,120	-5,004	-4,137	-4,787

### **8. The Scale of the Current Financial Challenge**

- 8.1 The MTFP has been prepared by rolling forward the existing Cash Limited Budget, using a detailed financial model adjusting for inflation, and the full impact of known decisions and known operational changes. This forecast contains the most up to date information at the time of drafting, but the Council's financial position is complex and dynamic and subject to change.
- 8.2 The MTFP which was last approved by Council on 21 February 2018 highlighted the need to make savings of around £11.3m for the period 2018/20. This assumed a reduction of 1% in grant funding, council tax increase of 3% (but no increase in taxbase), 2.9% and 2.5% pay inflation, 2% general inflation and known unavoidable commitments for the 2019/20 and 2020/21 financial years respectively.
- 8.3 Local Government Revenue and Capital Settlement 2019/20
- 8.3.1 The provisional local government revenue and capital settlement was announced on 9 October 2018 and indicated a decrease in grant support (after taking account of transfers of grants into the settlement) for the 2019/20 financial year of 0.6% for the Council compared to an average

decrease of 0.3% on an all Wales basis. No indicative figures were announced for the 2020/21 financial year.

8.3.2 On 19 December 2018, the Welsh Government published the final settlement for Wales. The total value of support for all Wales was £4,237million compared with £4,227 million in 2018/19 (after adjusting for transferred grants). This represented an increase of 0.2% compared to 2018/19. However, the Council's share of the settlement was a decrease of 0.1%.

8.3.3 Adjusting for an increase to the Council tax base and updating the inflation and unavoidable commitments revised the budgetary shortfall for 2019/20 to £5.8 million. The table below shows the components that that make up the budget shortfall and the projected shortfall over the two years from 2020/21 to 2021/22 amounting to approximately £9.8 million.

**Medium Term Financial Plan 2019/20 – 2021/22**

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Council Tax Income	58,236	61,601	64,989	68,564
Revenue Support Grant (RSG)	175,177 #	175,252	175,252	175,252
<b>Total Funding</b>	<b>233,413</b>	<b>236,853</b>	<b>240,241</b>	<b>243,816</b>
<b>1 (Increase) / Decrease in funding</b>		<b>-3,440</b>	<b>-3,388</b>	<b>-3,575</b>
<b>2 Add: Inflation</b>		<b>5,659</b>	<b>6,934</b>	<b>7,152</b>
Unavoidable Commitments:				
Demography		500	500	500
Capital Financing costs		184	259	187
Teachers' Pension Costs		1,506	1,076	0
Fire Service Levy		361	100	100
Additional Discretionary Rate Relief		96	0	0
Increase Capital Limits for Residential Care		288	0	0
ITC pressures - Microsoft Licensing & Shared Hosted contact centre platform		172	0	0
ITeC - Loss of income		142	0	0
R&M		250	0	0
Free school Meals		79	0	0
Senior Coroner Salary		9		
<b>3 Total Unavoidable Commitments</b>		<b>3,587</b>	<b>1,935</b>	<b>787</b>
<b>4 Total Budget Pressures (1+2+3)</b>		<b>5,806</b>	<b>5,481</b>	<b>4,364</b>
<b>5 Less: Savings Identified</b>		<b>-5,806</b>	<b>0</b>	<b>0</b>
<b>6 Budget Shortfall after savings identified(4+5)</b>		<b>0</b>	<b>5,481</b>	<b>4,364</b>
# Adjusted for grants transferred into RSG in 2019/20				

- 8.4 As in previous years, the reduction in government funding is only part of the financial pressure that needs to be incorporated into the MTFP.

Table 4: Financial Assumptions

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>
Grant	-0.1%	0%	0%
Council Tax Increase	5.5%	5.5%	5.5%
Inflation –Pay (average)	2.8%	2.5%	2.5%
PFI, Social Care Providers &CTax Reduction Scheme	3.0%	3.0%	3.0%
General	0%	2%	2%

- 8.5 The Council is not immune to the impact of other general inflationary pressures in the private sector, passed on by external contractors. The MTFP thus assumes general increases of between 2% over the course of the MTFP, this in line with Government targets.

## **9. Meeting the Financial Challenge**

- 9.1 The Council recognises that it needs to continue to reshape its services not only to meet the financial challenges it faces but also to prioritise the most vulnerable members of our society. Faced with this challenge the Council must radically change service delivery, both in terms of which continue to be delivered, and also the way in which they are delivered. Since April 2015 the Council has been working in a different way – a way that is more customer focused, business like and purpose driven. Some of the key principles that underpin how we will work as an organisation in the future are:

- Wherever possible answering customer queries at the first point of contact. This doesn't mean all our services being in Contact Wrexham; it is about making sure that people with the right skills, knowledge & information are available for customers when they contact us.
- Services to focus on quality service delivery or managing such delivery. We already have a 'mixed economy' when it comes to providing services for the people of Wrexham; this will continue and may take new forms in the future. We will aim to ensure that services provided directly or indirectly by the Council are of a high quality.
- Minimise transactional activity – the more we handle things, the more it costs. This is about making sure we work efficiently to get the same or better outcomes.
- Understand we need to be regulated and performance managed but that these functions will need to reduce proportionately according to the size of the organisation. As the organisation changes shape and service delivery reduces, stops or changes so will the functions that support that delivery.

## **10. Difficult Decisions 2019/20 & 2020/21 - Budget Consultation**

- 10.1 The financial challenge heightens the need to involve citizens, to increase public understanding of the rationale for change and why difficult decisions have to be made. Through clear communication, consultation and engagement we can help manage public expectations, as well as understand their views on the way forward, so they can influence the future shape of local service
- 10.2 The public budget consultation went live on the 24 October 2018 after being approved by the Executive Board on 23 October 2018. The consultation ran for five weeks and closed on 28 November 2018. The purpose of the budget consultation exercise for 2019/21 was to:
- Increase public understanding of the scale of the financial challenge and why difficult decisions need to be made
  - Increase public knowledge about the proposed changes being considered
  - Understand people's views on the budget proposals for the 2019/20 and 2020/21 financial years, in order to consider these views when making final decisions.
- 10.3 A survey and detailed information booklet was made available on line on the Council's website. Paper copies of the survey and materials promoting the consultation were also distributed to the Contact Centre and key Council buildings across the County Borough such as the Civic Reception and Libraries. People were able to give us their views by completing the survey online, complete a paper version of the survey, or writing in by email or letter.
- 10.4 The consultation was open to all and widely publicised via the Council website, Young Wrexham website, social media, the Council newsletter and local media. Employees and Members were made aware of the consultation via the Council intranet, internal briefings and newsletters and Executive Board reports.
- 10.5 Members and Senior Officers participated in a 'market stall' session in the Guildhall on 28 November 2018. The purpose of this was to provide an opportunity for Lead Members to gather ideas from the public about savings proposal and income generation ideas.

## **11 Outcome of Budget Consultation**

- 11.1 The consultation responses received have been collated and analysed and fed back to Members of the Council so that they can be taken into account before they make their final decisions on next year's budget. Consultation findings were presented to all Members at a workshop on the 10 December 2018 and a detailed report of the findings was considered by the Executive Board on 8 January 2019.

## **12 Capital**

- 12.1 Despite the financial challenge and constraints the Council faces, it is still committed to investing in the future. The Council's capital investment plans are set out in the capital programme, with the latest approved programme covering the period between 2018/19 and 2022/23 financial years. The effective use of capital resources, including asset management, is fundamental to the Council achieving its medium and long term strategic objectives.
- 12.2 Any capital investment decision will have implications to the revenue budget. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within the Council's financial plans and to demonstrate that the capital investment is affordable.
- 12.3 The Council's Capital Strategy is outlined in Appendix 5.

### 13 The Council's Reserves Strategy

- 13.1 The Council is required to maintain adequate financial reserves to meet the needs of the organisation. The Council's Reserves Strategy sets out how the Council will determine and review the level of reserves. The Council's Reserves Strategy is available at the following web address and also in the attached Annex.

[https://www.wrexham.gov.uk/assets/pdfs/financial/reserves\\_strategy.pdf](https://www.wrexham.gov.uk/assets/pdfs/financial/reserves_strategy.pdf)



## **RESERVES STRATEGY 2019/20**

**Review Date: February 2020**

## **Background**

1. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
2. There are other safeguards in place that help to prevent local authorities over-committing themselves financially. These include:
  - The balanced budget requirement (Local Government Finance Act 1992 – section 32 and 43).
  - Head of Finance's duty to report on the robustness of estimates and adequacy of reserves (Local Government Act 2003 section 25) when the Council is considering the budget requirement.
  - Legislative requirement for the Council to make arrangements for the proper administration of their financial affairs and that the Head of Finance has responsibility for the administration of those affairs (section 151 of the Local Government Finance Act 1992).
  - The requirements of Cipfa's Prudential Code – the Code requires the Head of Finance to have full regard to affordability when making recommendations about the Council's Capital Programme. Such consideration includes the level of long term revenue commitments. In considering the affordability of the Council's capital plans, the Head of Finance is required to consider all of the resources available to the Council, estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years. There is a requirement for three year revenue forecasts across the public sector and this is achieved through the Medium Term Financial Plan (MTFP).
  - Wales Audit Office will consider whether the Council has established adequate arrangements to ensure that the Council's financial position is soundly based.
3. These requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Head of Finance to report if there is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the Council will not have the resources to meet its expenditure in a particular financial year.

## **Current Financial Climate**

4. The pressures on public finances currently and for the medium term are intense. Therefore, the ability to retain reserves for unforeseen events and circumstances becomes not only difficult but something that requires careful consideration.
5. The Council's MTFP identifies risks in achieving the required savings to ensure balanced budgets over future years. Specifically working with further reductions in grant funding and trying to keep council tax increases at a reasonable level will see the need for reserves to be managed effectively.

## **Types of Usable Reserves**

6. When reviewing the MTFP and preparing the Council's annual budget the Council needs to consider the establishment and maintenance of resource-backed reserves. The Council maintains reserves to protect against risk, ensure contingencies are in place and to support investment in future projects which are beneficial to the County Borough. The Council manages risk by assessing the potential impacts of future events, based on the likelihood that they may occur and the severity of any impact. Mitigating actions are then identified to reduce the exposure and appropriate plans are put in place.
7. As at 31 March 2018 the Council held the following usable reserves:

	<b>31/03/13 £'000</b>	<b>31/03/14 £'000</b>	<b>31/03/15 £'000</b>	<b>31/03/16 £'000</b>	<b>31/03/17 £'000</b>	<b>31/03/18 £'000</b>
General Fund Balance	7,018	7,018	7,018	7,018	7,018	7,018
HRA Balance	6,469	7,932	7,860	6,435	6,001	5,030
Earmarked General Fund Reserves	18,123	18,064	20,546	21,801	17,857	18,836
Earmarked HRA Reserves	7,861	5,026	1,421	0	0	0
Capital Receipts	17,816	15,036	15,083	14,468	11,935	13,082
Capital Grants Unapplied	901	1,225	1,459	802	744	569
<b>Total</b>	<b>58,188</b>	<b>54,301</b>	<b>53,387</b>	<b>50,524</b>	<b>43,555</b>	<b>44,535</b>

#### General Fund Balance

8. The purpose of this reserve is to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and resulting from an extraordinary event. A general reserve should be set at a prudent but not excessive level, as holding high level reserves can impact on resources and performance. Previously, it has been maintained at a level around 5% of the Council's net budget (excluding schools). Appendix 1 details the elements that make up the General Fund balance and the levels of risks attached to each of these elements. These are indicative and may not be exhaustive as new risks emerge.

	<b>2013/14 £'000</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>	<b>2016/17 £'000</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>
Net budget (excl. schools)	154,239	150,604	146,144	45,802	145,675	152,231	153,357
General Fund Balance as %age of net budget	4.56%	4.66%	4.80%	4.81%	4.82%	4.61%	4.58%

#### HRA Balance

9. This represents funds ring-fenced for use on the Council's own housing stock. The HRA Business Plan has been developed on the basis that a minimum balance of £5m is held to mitigate against risk.

### Earmarked General Fund Reserves

10. Unlike general fund balance earmarked reserves have been identified for specific areas of expenditure where there are anticipated costs that can only be estimated. Expenditure relating to earmarked reserves has to specifically relate to the purpose of the reserve. See Appendix 2 which is an extract from the Council's 2017/18 Statement of Accounts and lists the Council's earmarked reserves

### Capital Receipts

11. This reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to repay debt. The latest Capital Programme report highlights that an estimated £11.4m of capital receipts funding will be required from 2018/19 onwards.

### Capital Grants Unapplied

12. This holds the grants and contributions received towards capital projects for which the Council has met the conditions but has yet to be applied to meet capital expenditure.

### Procedure for Use of Reserves

13. A reserve can only be established with the approval of the Executive Board and/or the Head of Finance and should be for a specific and appropriate purpose.
14. The Council's cash limited budgeting system contains provision for "carry forward arrangements" at year end. Subject to members of the Executive Board approval, a service or department which underspends its cash limited budget can normally carry forward the underspending, up to a maximum of 5% of the department's cash limited budget, to the following year.
15. Reserves can only be used once and so should not be held to fund on-going expenditure.
16. As part of the annual budget process the Head of Finance will consider and make recommendation to the Executive Board and Council whether there is a need to include a contribution to the general fund balance or any earmarked reserve.

### Monitoring

17. The use of reserves is reported to members on a bi-monthly basis as part of the Council's Budget Monitoring procedures.
18. During the Autumn and as part of an all Member Budget Workshop, the Council's reserves are reviewed on an annual basis to ensure they meet the current and future needs of the Council. As part of the review members consider for each earmarked reserve:
  - the reason for/ purpose of the reserve

- how and when the reserve can be used
- its relevance and adequacy

19. Any transfers to or from earmarked reserves are approved by the Executive Board.

### **Risk Analysis**

20. Any recommendations that change the planned use of reserves reported within the annual Revenue Budget report will take account of service needs against the need to retain prudent levels of reserves. There are significant risks which affect the level of reserves to be maintained and the type of risks that have been considered, but which also be kept under review are:

- Future funding gap - the risk that due to the economic conditions, that are likely to be further real terms reductions in levels of revenue support grant and reductions in specific grants.
- Reduced capital receipts and planning related income.
- Increased demand on services which can lead to departmental overspends.
- Lower than expected income
- Uninsured losses from hard to predict events – for example, storms, floods, terrorism. Relief under the Emergency Financial Assistance scheme is payable only when expenditure exceeds a threshold of 0.2% of the Council's budget requirement and will only fund 85% of emergency expenditure above the threshold.
- Uninsured legal liabilities – for example, personal injury claims.
- Inability to deliver planned savings.
- Organisational Restructuring – for example, redundancy and pension costs.
- Long-term contract costs – for example, waste management.
- Repair or replacement of assets – for example, buildings.

### **Conclusion**

21. The Council's current level of reserves is not excessive especially when compared with the average level of reserves held within all local authorities in Wales. The Welsh Government has published local authority data on levels of reserves and these can be accessed on the following link:

<http://gov.wales/topics/localgovernment/finandfunding/whole-government-accounts/publications/whole-government-accounts-reserves/?lang=en>

22. The Council's earmarked reserves have increased within the past few years as the Council has gone through a process of change and during which time underspends against budget has resulted. Tighter budget management means that underspends of this level are not likely and the possibility of overspends against budget becomes a greater risk for the Council.

23. During the year changes may occur in the MTFP which will affect this strategy. Such changes will be monitored by the Head of Finance and reported to the Executive Board.

APPENDIX 1

Key Risk	Impact	Likelihood	Management of Risk	Min £k	Max £k	Req'd £k
Major incident and/or claims – unbudgeted expenditure	Council expected to fund expenditure up to 0.2% of budget requirement and 15% of eligible expenditure over and above the 0.2% threshold.	Single Incident up to 0.2% of net budget – Low to Significant Single Incident amounting to over 0.2% of net budget – Very Low		479	1,126	647
Counterparty Failure	Parties may fail to pay amounts back to the Council and therefore impact on revenue budget	Significant	As per TM Strategy deposits only made with institutions with a minimum credit rating of A- and no more than £5m per institution and no longer than 12 months.	1,000	5,000	3,000
Inability to deliver planned savings, increased demand for services and potential reduction in specific grants	In year overspend	High	As part of annual budget process undertake a risk assessment of achieving saving proposal. However the following were identified has high risk:  a) Change in working practices and service delivery. b) Increase and introduce charges in line with cost recovery policy c) Impact of increased demand for services and reduction in specific grants		1,362 487 2,300	638 487 2,300
			<b>TOTAL</b>	<b>2,573</b>	<b>10,275</b>	<b>7,072</b>

## APPENDIX 2

	2016/17			2017/18			Balance at 31/03/2018 £'000
	Balance at 01/4/2016 £'000	Transfers Out £'000	Transfers In £'000	Balance at 31/03/2017 £'000	Transfers Out £'000	Transfers In £'000	
	General Fund:						
Balances held by schools	2,580	(1,297)	359	1,642	(653)	1,023	2,012
Service Reserves	710	(184)	609	1,135	(357)	276	1,054
Insurance Reserve	2,402	0	17	2,419	0	220	2,639
Legal Liabilities Reserve	485	(34)	800	1,251	(178)	0	1,073
Winter Maintenance Reserve	300	0	0	300	(295)	345	350
Early Voluntary Retirement Reserve (EVR)	94	0	0	94	0	0	94
Transitional EVR Reserve	1,495	(146)	0	1,349	0	0	1,349
Reshaping Services Reserve	2,062	(1,247)	0	815	(29)	0	786
Invest To Save Reserve	61	0	75	136	0	259	395
Capital Reserve	4,003	(2,251)	885	2,637	(103)	183	2,717
Repairs and Maintenance Reserve	250	(100)	0	150	(50)	0	100
ITeC Reserve	510	(150)	0	360	(154)	0	206
IT Development	42	0	0	42	0	0	42
Customer Access	15	0	0	15	0	0	15
Local Development Plan Reserve	203	0	0	203	(29)	0	174
Waste Strategy Reserve	95	(95)	0	0	0	0	0
Carbon Emission Reserve	545	(468)	225	302	(5)	296	593
Cremation Plant Replacement Reserve	23	0	0	23	0	0	23
Section 106/278 Reserve	514	(186)	0	328	0	0	328
North Wales Regional Transformation	0	0	109	109	(109)	0	0
Miscellaneous	53	(13)	5	45	0	1	46
Grant Reserves	5,359	(1,467)	610	4,502	(548)	886	4,840
<b>Total</b>	<b>21,801</b>	<b>(7,638)</b>	<b>3,694</b>	<b>17,857</b>	<b>(2,510)</b>	<b>3,489</b>	<b>18,836</b>

**Service Reserves** - represents service underspends as part of the Council's carry forward arrangements for use in subsequent years.

**Insurance Reserve** - the reserve is held to fund any future liabilities such as MMI (note 41) and claims that exceed budget.

**Legal Liabilities Reserve** - amount set aside to provide for any future legal liabilities.

**Winter Maintenance Reserve** - amount set aside to cover costs due to unforeseen adverse weather conditions.

**Early Voluntary Retirement & Transitional EVR Reserve** - to fund early retirements and redundancy costs following reshaping services.

**Reshaping Services Reserve** - an amount set aside to aid the transformation process to realise future savings for the Council.

**Invest To Save Reserve** - provision for the investment in various plans to realise permanent financial savings.

**Capital Reserve** - represents resources already committed to finance part of the Council's five year Non-HRA Capital Programme.

**Repairs and Maintenance Reserve** - to respond to future uneven expenditure patterns.

**ITeC Reserve** - ITeC provides information technology training for the benefit of the local economy and the reserve has been established to respond to future uneven expenditure patterns.

**IT Development & Customer Access** - to fund various IT enhancements and Self Service ICT development.

**Local Development Plan (LDP) Reserve** - to fund costs associated with the adoption of the LDP.

**Waste Strategy Reserve** - amount set aside to mitigate the impact of proposed reduction in the Waste Management grant.

**Carbon Emission Reserve** - to partly fund the carbon reduction plan programme of works to reduce carbon emissions.

**Cremation Plant Replacement Reserve** - to partly fund the cost of mercury abatement.

**Section 106/278 Reserve** - represents income from contractors which have no conditions attached but which have been set aside to fund various infrastructure projects.

**North Wales Regional Transformation** - represents underspend on contribution made to fund North Wales Regional projects carried forward for use in subsequent years.

**Miscellaneous** - to meet a variety of other commitments including crematorium donations and school brass band.

**Grant Reserves** - represent income from Government grants received which have no conditions attached but which have been set aside for use in the provision of specific services.