

# **MEDIUM TERM FINANCIAL PLAN**

## **2022/23 - 2024/25**

### **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 2022/23 to 2024/25.
- 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 services the Council provides are mainly funded by Welsh Government grants, with additional funds raised locally from Council Tax and by charging for services. Over the last ten years the Council has faced budget cuts on a scale that it has never experienced before and the Council is continuing to take difficult decisions as to how to best plan and deliver services.
- 1.4 Reviewing the MTFP remains essential to ensuring the Council's medium term financial sustainability. In order to try to avoid cuts to services, the Council continues to explore alternative options of service delivery and funding to ensure that services remain fit for purpose in the context of smaller real-terms budgets. It is also an opportunity to work with partners to where appropriate to maintain and improve outcomes as demands and costs increase faster than funding.

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

- 2.1. The MTFP sets out the broad issues that will impact on the Council's financial position for 2022/23 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 savings and generate additional income.

### 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 2020/23 was approved by Council on 16 December 2020 and sets out six priorities:

- Developing the Economy
- Ensuring Everyone is Safe
- Ensuring a Modern and Resilient Council
- Improving the Environment
- Improving Secondary Education
- Promoting Good Health and Well-being (with the focus on improving Children's Services)

3.2 These were first introduced as 'in year' priorities in the 2019-22 Council Plan and have been developed throughout 2019 – 2020 into the priorities for the Plan for the period 2020-23.

3.3 Six Priority Boards are responsible for the overall delivery of the priorities and for reporting progress against the agreed milestones, measures and targets contained within the Plan. In accordance with the performance management framework, Priority Boards report to the Executive Board at quarters 2 and 4 and via the Council's annual performance report in October each year.

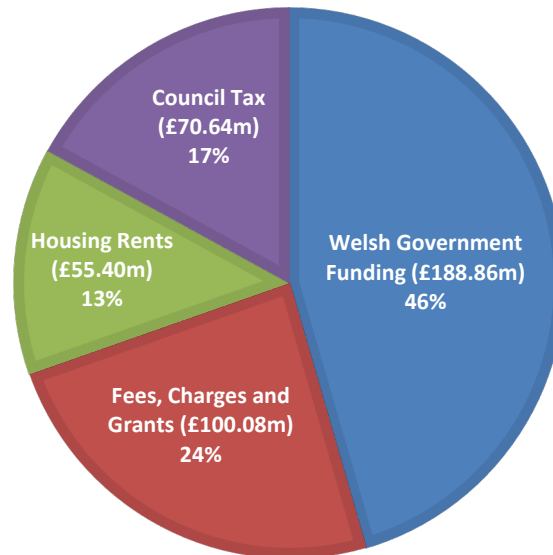
### 4. Internal Financial Context

4.1 In 2021/22 the Council's net revenue budget requirement to be met by the Council Tax payers was £70.64 million (net of government grants, rents, interest and fees and charges.)

4.2 The Council Tax base calculation for 2021/22 was 53,553 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. The Council's 2021/22 budgeted gross expenditure is £414.98 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 charts:

|                          | Amount   | Percentage |
|--------------------------|----------|------------|
| Council Tax              | £70.64 m | 17%        |
| Housing Rents            | £55.40m  | 13%        |
| Welsh Government Funding | £188.86m | 46%        |
| Fees, Charges and Grants | £100.08m | 24%        |
| Total                    | £414.98m | 100%       |

## 2021/22 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.

#### Inflation

- 5.2 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 primarily by the Consumer Prices Index (CPI).
- 5.3 Twelve-month CPI inflation rose from 3.1% in September to 5.1% in November. It is expected that inflation will remain around 5% through the majority of the winter period, and to peak at around 6% in April 2022. Indicators of cost and price pressures have remained at historically elevated levels recently, and it is expected that there will be further price increases next year driven in large part by pay and energy costs. CPI inflation is still expected to fall back in the second half of next year.
- 5.4 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.

- 5.5 Due to the ongoing implications of the Covid 19 pandemic, it is possible that strict application of this policy may be suspended in some service areas for part of 2022/23.

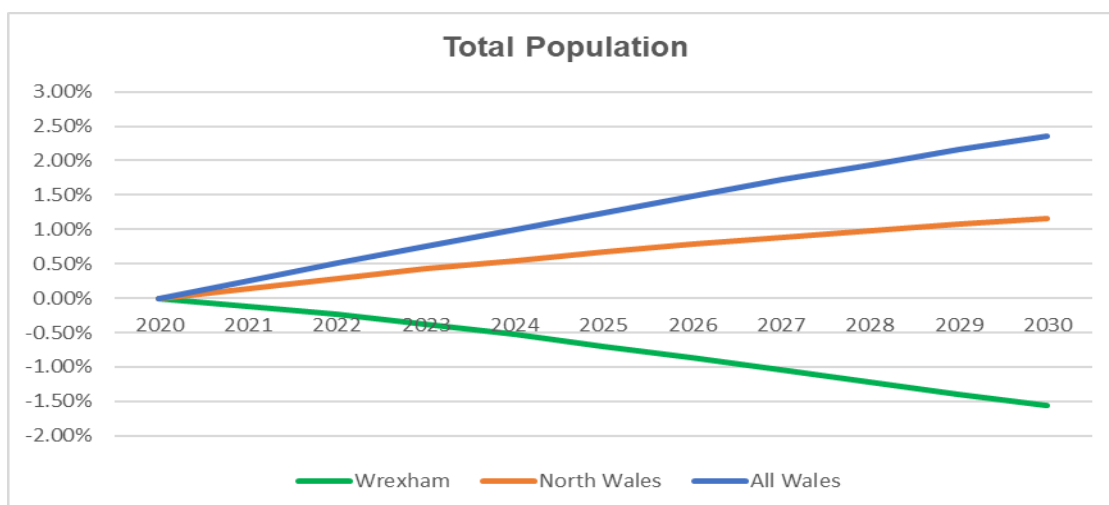
### **Interest Rates**

- 5.6 On 16 December, the Bank of England's Monetary Policy Committee (MPC) announced that it had raised interest rates from 0.1% to 0.25% and kept the total size of its bond-buying programme (known as quantitative easing) unchanged at £895 billion. The MPC will review developments, including emerging evidence on the implications for the economy of the Omicron variant, as part of its forthcoming forecast round ahead of the February 2022 Monetary Policy Report.

### **Population**

- 5.7 Population projections are used to help local authorities plan for the future (for example to plan houses, schools, nurseries and social services), and are used to help distribute government funding. They do not take account of any future political or economic developments. The projections look at what has been happening to the population in recent years and project it forward into the future. 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.
- 5.8 The population data set used for the 2022/23 Local Government Provisional Settlement is based on the 2018-based local authority projections for 2022.
- 5.9 The 2018-based national population projections were published by the Office for National Statistics (ONS) on 11 June 2020 and are based on the mid-year population estimates for 2018. During the period 2020 to 2030 the population in Wrexham is projected to decrease by 1.57%, whereas the overall population in North Wales is expected to increase by 1.16% and All Wales to increase by 2.36%. This position, relative to other authorities, will impact the distribution formulae used within the settlement, so it is a risk moving forward. However, other statistical factors also inform the calculations, such as benefit data and current spending profiles.

**Chart 1 - Cumulative % change in total population projections between 2020 and 2030**



*Data Source: Stats Wales*

5.10 The table below shows the change in the population data used in the 2022/23 and 2021/22 Local Government Revenue Settlements.

|           | <b>Mid-Year 2018 Estimates</b> | <b>2021/22 Settlement (Mid-Year 2018 Estimates (phased)) #</b> | <b>2022/23 Settlement (2018-based Population Projections for 2021) #</b> | <b>Change</b> | <b>%</b> |
|-----------|--------------------------------|--|--|---------------|----------|
| Wrexham   | 136,126                        | 136,642  | 136,535  | -107          | -0.1     |
| All Wales | 3,138,631                      | 3,163,125  | 3,171,125  | 8,000         | 0.3      |

*# Data adjusted to reflect actual population at HM Berwyn prison*

## Children's Social Care

5.11 There continue to be pressures in the Children's specialised residential and fostering placements budgets, as well as within the budgets for the associated specialist education costs, along with an increase in agency costs. The growth in specialist placements the council is dealing with is not a unique position and is a pressure facing a number of councils across the country. It is in part a consequence of the impact of Covid-19.

5.12 The table below highlights the increase in placement numbers across both fostering and residential over a 12 month period and numbers continue to increase. The table shows between Q2 2020/21 and Q2 2021/22 a 30% increase in placements over the period, noting that an increase of 65% had occurred over the previous year.

|                    | Q2 2020/21 | Q3 2020/21 | Q4 2020/21 | Q1 2021/22 | Q2 2021/22 |
|--------------------|------------|------------|------------|------------|------------|
| <b>Fostering</b>   | 90         | 94         | 106        | 108        | 118        |
| <b>Residential</b> | 26         | 23         | 27         | 30         | 33         |
| <b>Total</b>       | 117        | 117        | 133        | 138        | 151        |

## Unemployment

5.13 Each month the Office for National Statistics (ONS) publishes estimates of employment and unemployment rates. These estimates are based on information collected by the Labour Force Survey (LFS). The LFS unemployment rate fell to 4.2% in the three months to September, while the number of payrolled employees continued to rise strongly in November.

5.14 There is little sign in the available data that the closure of the Coronavirus Job Retention Scheme at the end of September has led to a weakening in the labour market. The LFS unemployment rate is now expected to fall to around 4% in 2021 Q4, compared with the 4.5% projection in the November Report.

5.15 For July to September 2021 the unemployment rate for people aged 16+ in Wales was 3.8%, slightly lower than 4.1% in the previous quarter (April 2021 to June 2021). This is a decrease of 4,000 people from the previous quarter to 58,000. The unemployment rate in Wales (3.8%) is lower than England (4.3%), Scotland (4.1%) and Northern Ireland (4.0%).

## 6. 2021 Spending Review

6.1 On 27 October 2021 the Chancellor announced his spending review in a statement to the House of Commons. The Chancellor has relied on new official forecasts showing that the UK economy has grown faster than expected this year and that long-term “scarring” of the economy due to the pandemic will be less severe than feared, giving him vital room for maneuver. The upgraded forecasts allow the chancellor, in his third Budget, to announce investment in priorities including the NHS, local transport and

support for “left behind” areas, while also helping families facing a winter of rising bills and energy costs.

6.2 The Chancellor said he made four judgements in his approach to the Budget:

- To meet the fiscal rules “with a margin to protect ourselves against economic risks.”
- To continue to support working families.
- To restore aid spending to 0.7% of national income when the economic tests are met (and this is now forecast to happen before the end of this parliament).
- To will increase departmental spending by £150bn (£90bn in real terms per year).

6.3 Other key points include:

- The Spending Review sets departmental budgets up to 2024/25 (including the devolved nations)
- Outlines a real terms increase of 3.8% per year in public spending
- Largest increase in public spending this century
- Plans to deliver £600bn of public sector gross investment over the Parliament

6.4 Spending Commitments included the following, with consequential impacts for Wales

- £7bn transport commitments
- NHS Digital Overhaul (England) £11bn
- Schools £4.7bn (+£3.1bn Recovery Funding)
- ‘Skills revolution’ £3bn
- Health spending to increase by £44bn
- Housing ‘settlement’ £24bn
- £5bn cladding

### **UK Growth Forecasts & Unemployment**

6.5 With the economy recovering faster than the Office for Budget Responsibility (OBR) had expected earlier this year, it means the economy should reach pre-crisis levels at the turn of the year - earlier than forecast:

- 2021: 6.5% growth this year, up from 4.0% forecast in March’s Economic and fiscal outlook
- 2022: 6% growth, down from 7.3% forecast in March
- 2023: 2.1% growth, up from 1.7% forecast in March
- 2024: 1.3% growth, down from 1.6% forecast in March
- 2025: 1.6% growth, down from 1.7% forecast in March

6.6 The OBR expects unemployment to peak at 5.2%

## Public Sector Pay

- 6.7 The Chancellor stated that there will be an end to the 12 month public sector pay freeze.

## National Living Wage/Real Living Wage

- 6.8 The National Living Wage will increase from £8.91 to £9.50 per hour and the Real Living Wage will increase to £9.90 per hour.

## Impact for Wales

- 6.9 The consequential effects of the UKSR policy announcements highlighted above contribute to the following impact on the Welsh Government budget:
- Three-year funding settlement
  - £2.5bn Block Grant increase compared to 2021
  - Largest increase in real terms since 1998
  - £2.9bn per year increase by 2024/25
  - Welsh budget in 2022/23 is £19.2bn 2022/23, compared to £17.2bn in 2021/22 (11.7% increase)
  - The Welsh budget rises to £20.1bn by 2024/25
- 6.10 This additional funding equates to £2.5bn per year for Wales and delivers the largest increase for devolved administration in real terms, since 1998.

## 7. Historical Financial Challenge

- 7.1 Over the last ten years the Council's funding gap (the difference between net expenditure and funding) has been bridged by making the following efficiencies/budget cuts amounting to around £49m (since 2010/11 this amounts to £59m).

|                               | 2012/13<br>£'000 | 2013/14<br>£'000 | 2014/15<br>£'000 | 2015/16<br>£'000 | 2016/17<br>£'000 | 2017/18<br>£'000 | 2018/19<br>£'000 | 2019/20<br>£'000 | 2020/21<br>£'000 | 2021/22<br>£'000 |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Net Expenditure</b>        | 215,434          | 233,334          | 238,111          | 232,240          | 229,073          | 229,461          | 237,659          | 242,659          | 251,881          | 260,182          |
| <b>Funding</b>                | 211,890          | 230,048          | 227,333          | 223,120          | 224,069          | 225,324          | 232,872          | 236,853          | 250,245          | 259,492          |
| <b>Budget Cuts</b>            | -3,544           | -3,286           | -10,778          | -9,120           | -5,004           | -4,137           | -4,787           | -5,806           | -1,636           | -690             |
| <b>Cumulative Budget Cuts</b> | -3,544           | -6,830           | -17,608          | -26,728          | -31,732          | -35,869          | -40,656          | -46,462          | -48,098          | -48,788          |



## 8. The Medium Term 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 Councils financial position is complex and dynamic and subject to change.
- 8.2 The MTFP which was last approved by Council on 24 February 2021 highlighted a budget gap of around £4.2m for the period 2022/24. However, prior to the announcement of the provisional settlement in December 2021, this gap had increased to over £15m, as pressures and costs increased significantly.
- 8.3 The provisional local government revenue and capital settlement was announced on 21 December 2021 and indicated an increase in grant support (after taking account of transfers of grants into the settlement) for the 2022/23 financial year of 9.4% for the Council compared to an average increase of 9.4% on an all Wales basis. Indicative figures were announced for the 2023/24 and 2024/25 financial years being 3.5% and 2.4% respectively. The final settlement will be published on 1 March 2022.
- 8.4 For the first time in over a decade, an indicative multi-year settlement has been provided. This is a welcome change and allows for a more strategic approach to financial planning, over a longer timeframe than has been the case in recent years. The settlement of 9.4% in 2022/23 is welcome, although it does come with additional spending commitments. However, taken alongside MTFP assumptions on Council Tax rises at 4%, it does allow a more stable platform in the first year of the three-year settlement period, to allow the pressures and challenges that are evident in years two and three, to be addressed. Demand, cost and pay inflation pressures will continue to exceed the levels of future settlements and so there will be challenges in 2023/24 and 2024/25, estimated to be £3.5m at this stage.
- 8.5 As in previous years, the change in government funding is only part of the financial factors that need to be incorporated into the MTFP. The financial assumptions included are shown in the table below:

|                             | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> |
|-----------------------------|----------------|----------------|----------------|
| Revenue Support Grant       | 9.4%           | 3.5%           | 2.4%           |
| Council Tax Increase        | 4.0%           | 5.5%           | 5.5%           |
| Inflation:                  |                |                |                |
| Teachers' Pay               | 4.0%           | 2.5%           | 2.5%           |
| Non-Teachers' Pay           | 4.0%           | 2.5%           | 2.5%           |
| National Insurance Increase | 1.25%          | -              | -              |
| PFI                         | 3.0%           | 3.0%           | 3.0%           |
| Social Care Providers       | 4.8%           | 3.0%           | 3.0%           |
| Energy                      | 15.5%          | 7.5%           | 7.5%           |

|         |      |      |      |
|---------|------|------|------|
| CTRS    | 4.0% | 5.5% | 5.5% |
| General | 2.0% | 2.0% | 2.0% |

- 8.6 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 2% over the 2023/25 period in line with Government targets and specific inflation across areas above, noting the specific inflation provisions reported in previous paragraphs impacting in 2022/23.

### **Levies**

- 8.7 The MTFP assumes that the Fire Service Levy for future years is at the same level as the indicative WG settlement figures.
- 8.8 The North Wales Corporate Joint Committee (CJC) is now formally established. The CJC will agree the budget annually and allocate contributions across the local authorities in the form of a levy. A levy for 2022/23 has been calculated and the Council's contribution amounts to £70k. However, this will be funded from within existing North Wales Economic Ambition Board contributions and so is not an additional cost pressure in 2022/23. The CJC budget will be reviewed and formally approved annually.

## Medium Term Financial Plan 2022/23 – 2024/25

|   | 2021/22<br>£'000 | 2022/23<br>£'000 | 2023/24<br>£'000 | 2024/25<br>£'000 |
|---|------------------|------------------|------------------|------------------|
| Council Tax Income                                    | 70,635           | 73,615           | 77,663           | 81,935           |
| Revenue Support Grant (RSG)                           | 189,069 *        | 207,060          | 214,307          | 219,450          |
| <b>Total Funding</b>                                  | <b>259,704</b>   | <b>280,674</b>   | <b>291,970</b>   | <b>301,385</b>   |
| <b>1 (Increase) / Decrease in funding</b>             |                  | <b>(20,970)</b>  | <b>(11,296)</b>  | <b>(9,415)</b>   |
| <b>2 Inflation</b>                                    |                  | <b>11,373</b>    | <b>8,360</b>     | <b>8,605</b>     |
| <b>Commitments:</b>                                   |                  |                  |                  |                  |
| Demography  |                  | 0                | 500              | 500              |
| Capital Financing                                     |                  | 50               | 200              | 200              |
| Fire Service Levy                                     |                  | 400              | 267              | 189              |
| Social Care   |                  | 5,000            | 1,500            | 1,000            |
| Social Care Workforce                                 |                  | 1,000            | 0                | 0                |
| Free School Meals - increased number of learners      |                  | 250              | 0                | 0                |
| CTRS - increased caseload                             |                  | 150              | 150              | 150              |
| Members' Allowances                                   |                  | 217              | 14               | 14               |
| Coroners - increase in fees                           |                  | 30               | 50               | 50               |
| Covid Legacy Hardship Pressures                       |                  | 463              | 0                | 0                |
| Other Service Pressures                               |                  | 937              | 300              | 300              |
| Non teachers' pension                                 |                  | 0                | 1300             | 0                |
| RLW Commitment/Pay Review                             |                  | 1400             | 600              | 0                |
| <b>3 Total Commitments</b>                            |                  | <b>9,897</b>     | <b>4,881</b>     | <b>2,403</b>     |
| <b>4 Net Budget Pressures (1+2+3)</b>                 |                  | <b>300</b>       | <b>1,945</b>     | <b>1,593</b>     |
| <b>5 Less: Budget Efficiencies</b>                    |                  | <b>(300)</b>     | <b>0</b>         | <b>0</b>         |
| <b>6 Budget Shortfall after cuts identified(4+5)</b>  |                  | <b>0</b>         | <b>1,945</b>     | <b>1,593</b>     |
| * Adjusted for grants transferred into RSG in 2021/22 |                  |                  |                  |                  |

## 9. Meeting the Financial Challenge

- 9.1 The Council recognises that it needs to have a clear vision about its role, what it can deliver with limited resources, how it works co-operatively with others, and how to approach the 2022/25 MTFP, in order to continue to achieve strong service delivery and financial management. Even with these in place difficult decisions will need to be made over the period in order to remain financially resilient.
- 9.2 Work on the MTFP requires a balanced approach in order to achieve the delivery of the Council's vision and priorities, ensuring key services continue to be sustainable and being able to balance the budget. A balanced approach requires the following factors to be considered:

- a) **Advocating for more resources from national governments:** as a minimum it is only fair that pay rises and additional pressures created by new national legislation are fully funded.
- b) **Considering carefully Council Tax rises:** The Band D rate of Council Tax in Wrexham is lower than the Welsh average. The Council recognises the impact Council Tax rises have on local people and will need to balance this with the potential impacts on services if increases are not made. Lower levels of Council Tax rise will mean that the Council will continue to spend less on residents per head of population and will never achieve a level of spending on local people and communities that is close to the level of SSA in the national funding formula.
- c) **Stopping/cutting services and reducing service levels:** In areas that are not a priority, services may have to stop, reduce or charge more where appropriate, over the course of the MTFP. This will impact on both discretionary and mandatory services. Our budget approach is no longer solely about re-shaping services - our services are continually being re-shaped, it is about re-prioritising services to ensure that priority and essential services are sustainable and resilient.
- d) **Making efficiencies in the way we deliver services:** The scope for genuine efficiencies is very limited given that much of the previous ten years' savings have been in efficiencies. However we will always work hard to identify and deliver more.
- e) **Working co-operatively with partners and communities:** In areas where services are at risk or there may be opportunities to enhance provision, early notification needs to be provided so work can take place with partners, local authorities and local communities to see what alternative provision might be possible.

9.3 Chief Officers continually review their services to identify service areas that can be reduced or cut or delivered more efficiently. There are no budget cuts proposed as part of the 2022/23 budget, though a level of service efficiencies of £300k has been included and is deemed deliverable. The MTFP indicates that budget cuts will be required in future years.

## 10 Capital

10.1 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 2021/22 and 2024/25 financial years. The effective use of capital resources, including asset management, is fundamental to the Council achieving its medium and long term strategic objectives.

10.2 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.

10.3 The Council's Capital Strategy is outlined in Appendix 4.

## **11 The Council's Reserves Strategy**

11.1 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 outlined in the following Annex.

## RESERVES STRATEGY 2022/23

### 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).
  - Chief Officer Finance & ICT'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 Chief Officer Finance & ICT 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 Chief Officer Finance & ICT 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 Chief Officer Finance & ICT 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 Chief Officer Finance & ICT 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.

- 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

- 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.
- As at 31 March 2021 the Council held the following usable reserves:

|                          | 31/03/17<br>£'000 | 31/03/18<br>£'000 | 31/03/19<br>£'000 | 31/03/20<br>£'000 | 31/03/21<br>£'000 |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Council Fund Balance     | 7,018             | 7,018             | 7,018             | 7,027             | 8,433             |
| HRA Balance              | 6,001             | 5,030             | 5,024             | 5,030             | 10,029            |
| Earmarked Reserves       | 17,857            | 18,836            | 21,926            | 19,178            | 33,484            |
| Capital Receipts         | 11,935            | 13,082            | 17,446            | 20,475            | 21,476            |
| Capital Grants Unapplied | 744               | 569               | 2,586             | 5,292             | 7,037             |
| <b>Total</b>             | <b>43,555</b>     | <b>44,535</b>     | <b>54,000</b>     | <b>57,002</b>     | <b>80,459</b>     |

The increase in reserves as at 31 March 2021 are primarily due to Covid-19 and other grant support received late in the financial year to either displace already incurred expenditure within the year or to carry forward into 2021/22.

### Council Fund Balance

- 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 Council 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.

|                            | 2015/16<br>£'000 | 2016/17<br>£'000 | 2017/18<br>£'000 | 2018/19<br>£'000 | 2019/20<br>£'000 | 2020/21<br>£'000 | 2021/22<br>£'000 | 2022/23<br>£'000 |
|----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Net budget (excl. schools) | 146,144          | 45,802           | 145,675          | 152,231          | 153,357          | 161,263          | 168,239          | 185,261          |
| Estimated Council Fund     | 4.80%            | 4.81%            | 4.82%            | 4.61%            | 4.58%            | 4.35%            | 5.01%            | 4.55%            |

|                               | 2015/16<br>£'000 | 2016/17<br>£'000 | 2017/18<br>£'000 | 2018/19<br>£'000 | 2019/20<br>£'000 | 2020/21<br>£'000 | 2021/22<br>£'000 | 2022/23<br>£'000 |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Balance as %<br>of net budget |                  |                  |                  |                  |                  |                  |                  |                  |

### **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 Reserves**

10. Unlike Council 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. Appendix 2 is an extract from the Council's 2020/21 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 £17.6m of capital receipts funding will be required from 2021/22 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 Chief Officer Finance & ICT 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 Chief Officer Finance & ICT 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 modest compared to other 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:

<https://gov.wales/local-authority-reserves-2019-2020>

22. In the past few years the Council's earmarked reserves have increased 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 for the medium term 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 Chief Officer Finance & ICT and reported to the Senior Leadership Team and Members.

**APPENDIX 1**

| <b>Key Risk</b>   | <b>Impact</b>  | <b>Likelihood</b>  | <b>Management of Risk</b>   | <b>Min<br/>£k</b> | <b>Max<br/>£k</b> | <b>Required<br/>£k</b> |
|---|--|--|---|-------------------|-------------------|------------------------|
| 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<br>Single Incident amounting to over 0.2% of net budget – Very Low | Reserves to manage identified financial risks or use of general balances if required.   | 567               | 1,333             | 1,333                  |
| 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 £3m per institution and no longer than 13 months. | 1,000             | 3,000             | 3,000                  |
| Inability to deliver planned budget cuts, increased demand for services and potential reduction in income | In year overspend  |  | As part of annual budget process undertake a risk assessment of achieving budget. The following have been identified as significant risk:                     |                   |                   |                        |
|   |  | High   | a) Income levels don't recover to pre pandemic levels   | 500               | 1,000             | 1,000                  |
|   |  | Significant  | b) Increased demand for looked after children   | 1,000             | 2,000             | 2,000                  |
|   |  |  | <b>Total</b>  | <b>3,067</b>      | <b>7,333</b>      | <b>7,333</b>           |

## APPENDIX 2

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and also the amounts posted back from earmarked reserves to meet General Fund in 2020/21.

|                               | Balance at    | 2019/20        |              | Balance at    | 2020/21      |               | Balance at    |
|-------------------------------|---------------|----------------|--------------|---------------|--------------|---------------|---------------|
|                               | 01/04/2019    | Out            | In           | 31/03/2020    | Out          | In            | 31/03/2021    |
|                               | £'000         | £'000          | £'000        | £'000         | £'000        | £'000         | £'000         |
| General Fund:                 |               |                |              |               |              |               |               |
| Balances held by schools      | 1,821         | (649)          | 941          | 2,113         | (16)         | 7,558         | 9,655         |
| Service Reserves              | 1,361         | (586)          | 62           | 837           | 0            | 1,227         | 2,064         |
| Insurance Reserve             | 2,889         | (198)          | 0            | 2,691         | 0            | 476           | 3,167         |
| Legal Liabilities Reserve     | 1,054         | (124)          | 0            | 930           | 0            | 96            | 1,026         |
| Winter Maintenance Reserve    | 350           | 0              | 0            | 350           | 0            | 0             | 350           |
| Early Voluntary Retirement    | 94            | (94)           | 0            | 0             | 0            | 0             | 0             |
| Transitional EVR Reserve      | 1,349         | 0              | 0            | 1,349         | 0            | 0             | 1,349         |
| Reshaping Services Reserve    | 754           | (182)          | 0            | 572           | 0            | 0             | 572           |
| Invest To Save Reserve        | 470           | 0              | 75           | 545           | (82)         | 0             | 463           |
| Capital Reserve               | 2,726         | (439)          | 0            | 2,287         | 0            | 0             | 2,287         |
| Repair & Maintenance          | 10            | 0              | 0            | 10            | 0            | 0             | 10            |
| ITeC Reserve                  | 154           | 0              | 0            | 154           | 0            | 0             | 154           |
| IT Development                | 42            | 0              | 0            | 42            | 0            | 0             | 42            |
| Customer Access               | 15            | 0              | 0            | 15            | 0            | 0             | 15            |
| Local Development Plan        | 174           | (174)          | 60           | 60            | (10)         | 0             | 50            |
| Carbon Emission Reserve       | 524           | 0              | 67           | 591           | (46)         | 5             | 550           |
| Cremation Plant Replacement   | 23            | 0              | 0            | 23            | 0            | 1             | 24            |
| Section 278 Reserve           | 464           | (284)          | 0            | 180           | 0            | 231           | 411           |
| Financial Instruments Reserve | 3,138         | (5)            | 0            | 3,133         | (7)          | 0             | 3,126         |
| Miscellaneous                 | 50            | (5)            | 4            | 49            | 0            | 0             | 49            |
| NW Economic Ambition Board    | 0             | 0              | 0            | 0             | 0            | 92            | 92            |
| Grant Reserves                | 4,464         | (2,456)        | 1,239        | 3,247         | (526)        | 5,307         | 8,028         |
| <b>Total</b>                  | <b>21,926</b> | <b>(5,196)</b> | <b>2,448</b> | <b>19,178</b> | <b>(687)</b> | <b>14,993</b> | <b>33,484</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 (see notes 29 and 30 Notes to the Accounts) 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/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. Repair & Maintenance Reserve - to respond to future uneven expenditure patterns.

ITeC Reserve - To cover dilapidation costs involved with moving out of the ITEC Building on Whitegate Industrial Estate. 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.

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 plant replacement.

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

Financial Instruments Reserve - the reserve has been created as a consequence of a temporary gain recognised in the CI&ES following a change in the calculation of the carrying amount of the Council's modified loans as at 1 April 2018, as required by IFRS 9. The reserve will be used to neutralise the impact of higher effective interest charges to the CI&ES over the remaining life of the loans.

Miscellaneous - to meet a variety of other environmental commitments including crematorium donations. North Wales Economic Ambition

Board - represents Council's share of the Board's reserves.

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.