



**BLAENAU GWENT COUNTY BOROUGH
COUNCIL**

**MEDIUM TERM FINANCIAL STRATEGY
2020/2021 to 2024/2025**

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1. **Introduction**

- 1.1 The Medium Term Financial Strategy (MTFS), the Council’s key financial planning document, is an integral part of the Council’s Corporate Business Planning arrangements. The Strategy covers a 5 year period and is updated, reviewed and approved annually by Council. The Strategy will change over time as new opportunities, or policy decisions affect the financial position of the Council.
- 1.2 The MTFS includes a forward look over the next five years to assess the spending requirements the Council is likely to face to deliver its priorities and the level of cuts i.e. reducing or stopping services that will need to be made to ensure the Council can set a balanced budget each year. It provides guidance for officers and Members on the short, medium and longer term financial challenges and enables advance financial planning to be carried out, assisting the Council to understand and meet future demands. Planning now to meet known or anticipated changes in the future provides greater opportunity to phase in the impact of the changes.
- 1.3 The Strategy sets out how the Council will finance its priorities, having regard for the Corporate Plan.

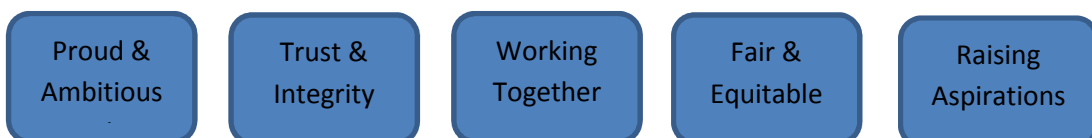
2. **Corporate Plan**

- 2.1 The Council approved the Corporate Plan 2018-2022 in April 2018 and this sets out the Council’s Vision, Values and Priorities and these are:

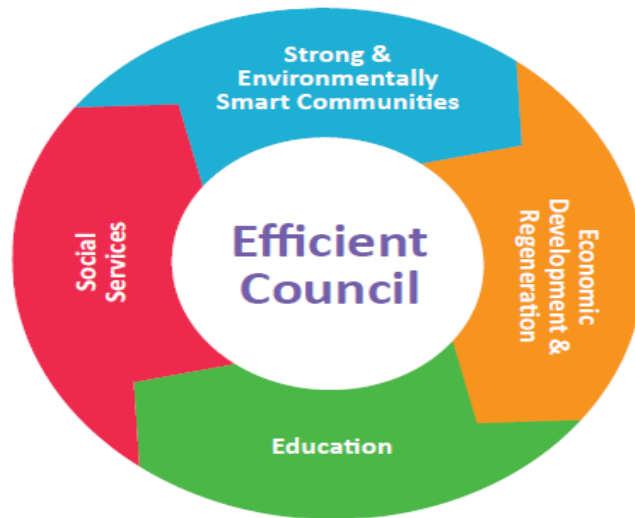
Our Core Vision:

Proud Heritage
Strong Communities
Brighter Future

Our Core Values:



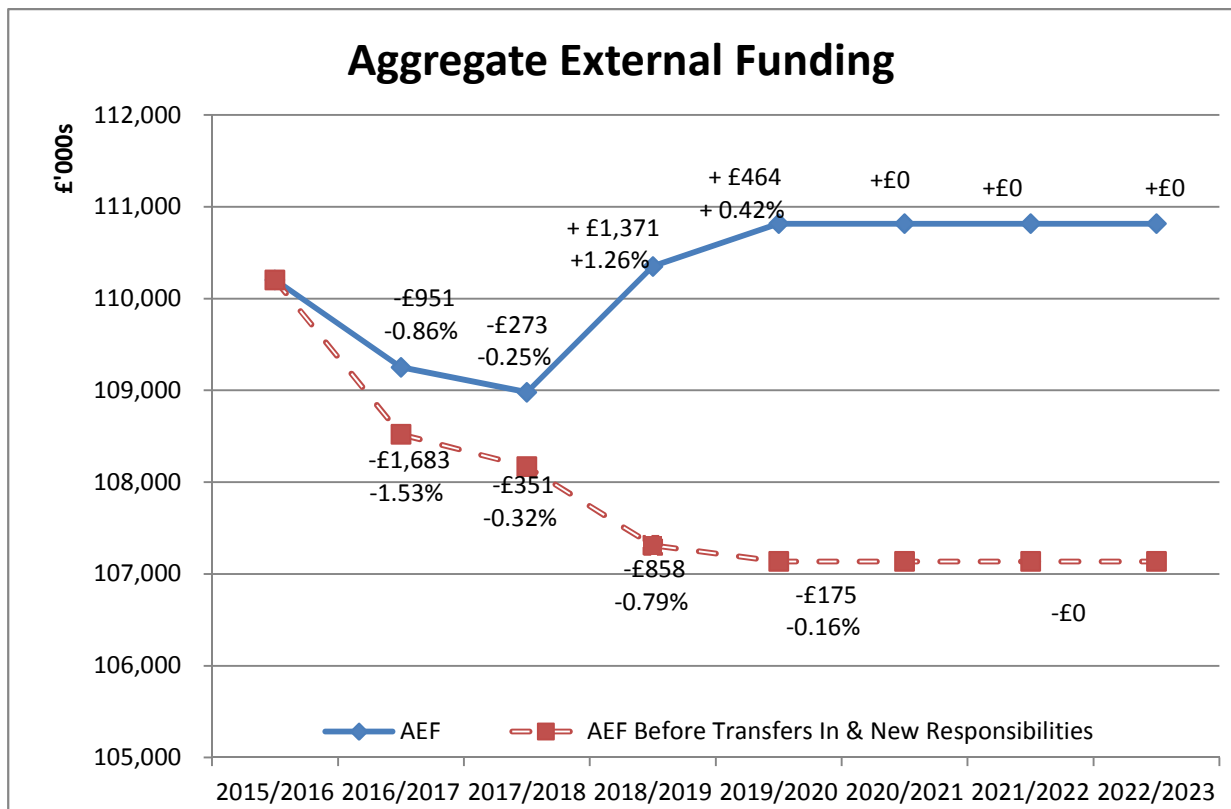
Our Priorities:



3. Revenue Settlement

- 3.1 The Council's revenue settlements for the period 2015/2016 to 2019/2020 and forecast of future settlements is shown in Figure 1. This illustrates the actual cash impact and the impact excluding transfers into the settlement for grants and new responsibilities.

Figure 1: Trend in Aggregate External Funding



3.2 The graph demonstrates that on a cash basis the funding received from Wales Government has increased overall by £610,000 between 2015/16 and 2019/20. However in real terms, when Grants transferring into the settlement and new responsibilities are excluded, the funding has reduced by in excess of £3m. This equates to a total of £9.7m over the last 4 years.

This when combined with increased demand for services and increasing costs have contributed to the financial challenge the council has faced in delivering its services to the residents of Blaenau Gwent.

3.3 2019/2020 Revenue Budget

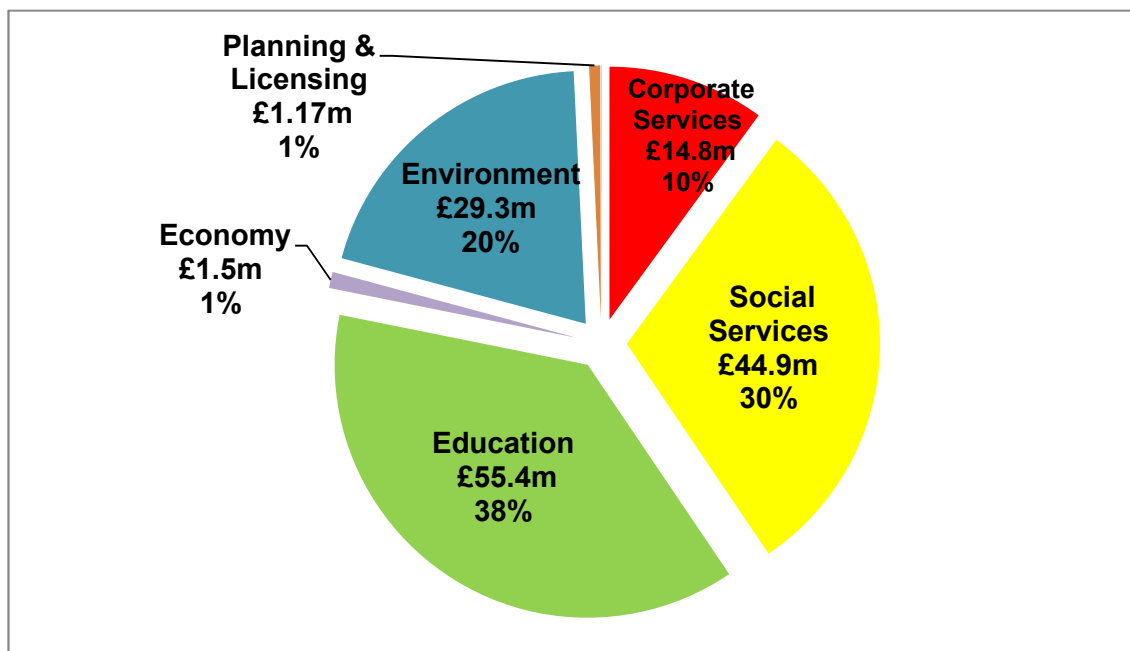
3.4 The revenue funding the Council received in 2019/2020 from Welsh Government was equivalent to a cash flat settlement when compared to 2018/2019. The all Wales increase in the Local Government Settlement was 0.2%.

3.5 In setting the 2019/2020 budget, the Council agreed:-

- All grants transferring into the Settlement would be transferred to the relevant service
- Additional funding of £1.43m to be built into the budget, over and above pay and price inflation, to address existing and emerging cost pressures
- Savings proposals of £3.4m
- No draw from the General Reserve
- Budget Contingency of £117,000
- Council Tax increase of 4.9%

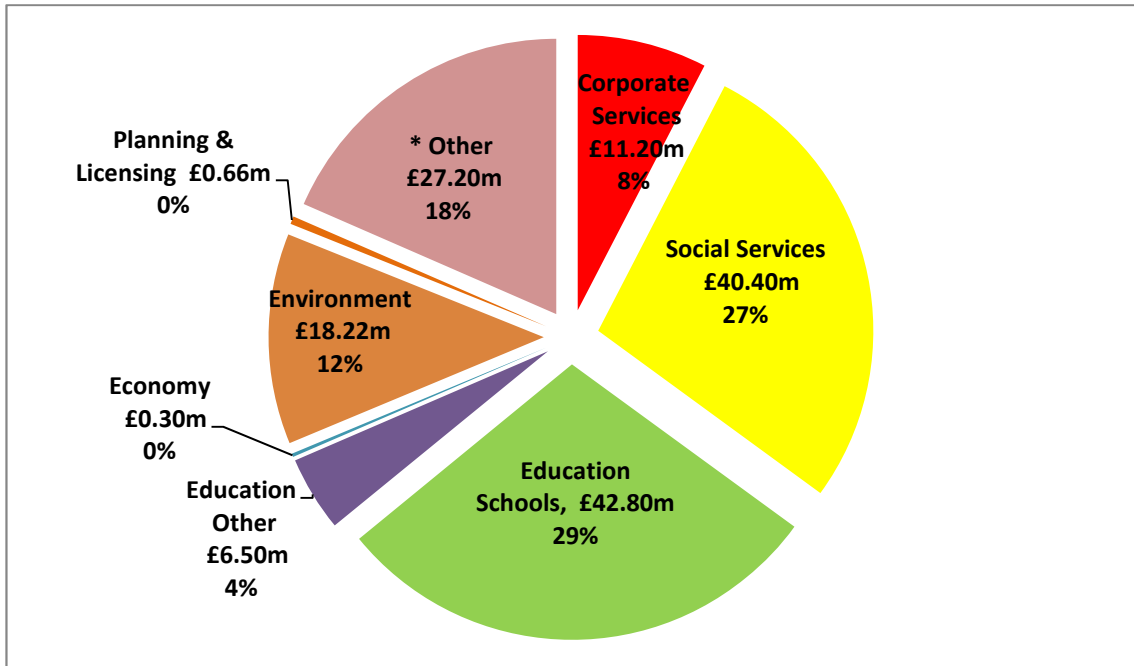
3.6 For the current financial year, the Council agreed a net budget requirement of £144.36m. The budget allocation across Portfolios is shown in figure 2 below:

Figure 2: 2019/2020 Revenue Budget per Portfolio



3.7 The graph shown in figure 3 shows the direct costs of delivering services across portfolios.

Figure 3: 2019/2020 Direct Service Costs per Portfolio



*Other includes:

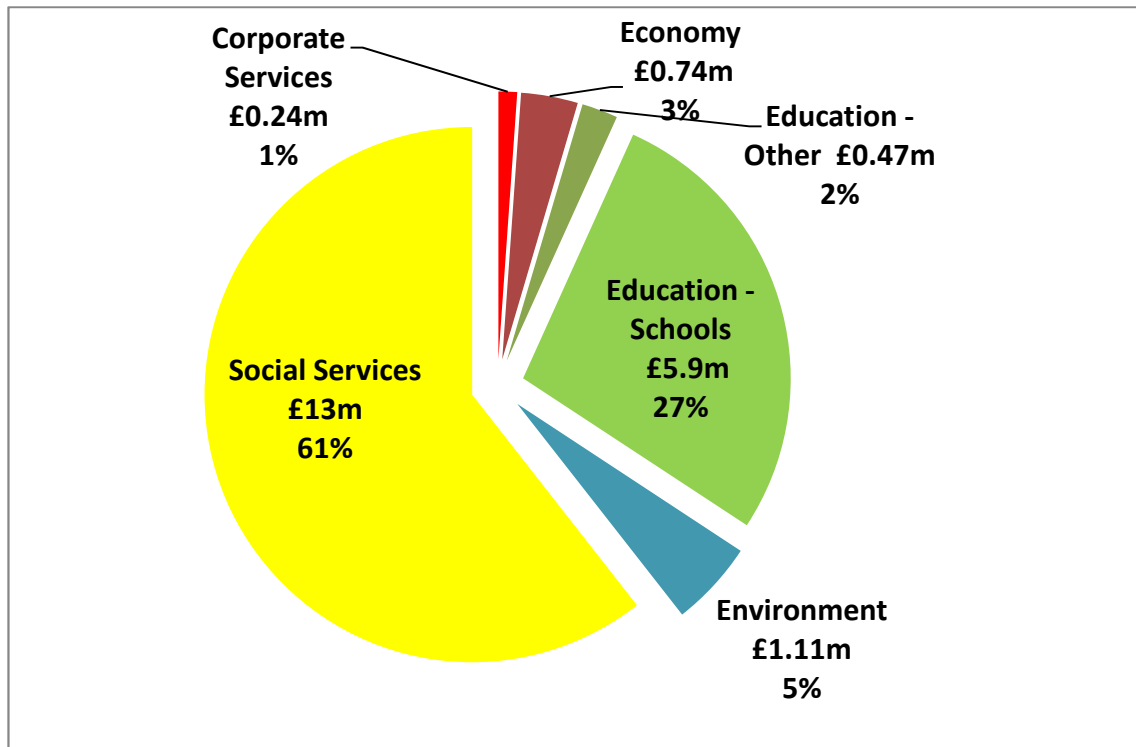
- Capital charges - £8.4m
- Fire & Apprenticeship Levy – £3.7m
- Council Tax Reduction Scheme - £9m
- IT, Administration Buildings & Insurance - £5.1m
- Other - £1m

3.8 In addition, to the agreed net budget, the Council spends a further £22m per annum to support the delivery of services. The Council receives specific revenue grant to fund this expenditure.

The assumption within the MTFS is that all grants will continue at the current level, and any reduction or termination of grant will be offset by a reduction in service expenditure.

3.9 Specific revenue grant allocations across Portfolios is shown in figure 4 below and it shows the current grant awards for 2019/2020 as at November 2019.

Figure 4: Specific Revenue Grant Funding Per Portfolio 2019/2020



4. **Review and Update of the MTFS**

- 4.1 The MTFS must be regularly reviewed to ensure preparedness from a financial planning perspective. The review will include considering and updating assumptions used in the Strategy to reflect new / emerging information for example inflation, changing demographics, service demand and policy changes etc.
- 4.2 The table below identifies the key assumptions included in the MTFS.

Table 1: Key Financial Planning Assumptions

Financial Planning Key Assumptions	
Pay	<p>Non-Teaching staff – 2% per annum pay increase have been assumed for all years.</p> <p>Teaching Staff – WG have agreed a 2.75% (5% for the lowest grades) increase to teachers pay effective from September 2019. A further 2% has been assumed for subsequent academic years.</p>

	<p>Incremental Pay Progression – the estimated cost of annual pay progression has been applied based on existing staffing</p> <p>Pension – 1% per annum increase on employers contribution to the pension scheme (non- teachers). An actuarial revaluation is due during 2019/2020.</p> <p>Teachers’ Pension Scheme – Employers pension contributions increases by 7.12% from September 2019. It has been assumed that additional funding will be provided in the settlement to fund these costs.</p> <p>Vacancy Factor of 1.5% has been built into staffing budgets.</p>
<p>Price Inflation (Non Schools)</p>	<p>Price Inflation – 2% per annum increase has been applied to non-employee related spend (excluding utilities), this is in line with CPI projections. Actual increases will be considered on a case by case basis.</p> <p>Utilities – 4% per annum increase have been applied to utility costs based on the assumption used in the Re:Fit programme.</p> <p>Income Inflation – Increase in discretionary fees and charges in line with inflation of 2% per annum.</p> <p>Council Tax Reduction Scheme – This has been increased in line with the assumed increase in Council Tax of 4.0%.</p>
<p>Schools Growth (ISB)</p>	<p>No inflationary increase has been applied to the Individual Schools Budget (ISB), it is assumed to be cash flat for the term of the MTFS in line with the assumption for Welsh Government funding.</p> <p>Projected increases or decreases in pupil numbers will impact upon the ISB – for 2020/21 pupil numbers are predicted to increase by 35.5 (based upon September 2019 data).</p>

Specific Grant Funding	This has been assumed to remain at the 2018/2019 level (as identified on the Revenue Grants Register). It is assumed that any reduction in funding is offset by a reduction in expenditure.
Capital Financing	<p>Capital Financing – Capital financing costs reflect the schemes within the current capital programme, with borrowing costs for future schemes funded from either USB (Unhypothecated Supported Borrowing) or prudential borrowing. For 2022/2023, the MRP charge will increase to approximately £2.6m per annum from £0.75m in 2021/2022. However, this is still lower than to MRP charge under the previous policy of £3.8m.</p> <p>The revised MRP policy has enabled the MRP charges to be reduced by £15m during the period 2017/2018 to 2021/2022. The MRP figure is incorporated into the overall revenue budget through the Capital Adjustment. Taking into account the above, the forecast overall impact in the Capital Adjustment in 2022/2023, will be an increased cost of £1.8m per annum.</p>
Council Tax	<ul style="list-style-type: none"> • Council Tax increased by 4.9% in 2019/2020. For planning purposes it has been assumed that Council Tax will continue to increase by 4% per annum. (1% increase will generate approximately £333,000 additional funding). • No additional funding has been assumed at this stage from an increase in the Council Tax Base for 2020/2021 onwards.
Estimated Funding reduction (Aggregate External Funding)	<p>For 2019/20, Welsh Government day to day spending will increase by over 2%, in real term, the largest increase since before the start of austerity measures in 2010/11 (Wales Fiscal Analysis Briefing Note – Analysing the Welsh Government Final Budget 2019-2020 and Local Government Settlement)</p> <p>Across Wales the average Local Government settlement increased by 0.2% with Blaenau Gwent receiving a cash flat settlement, after allowing for a</p>

	number of grants transferring into the settlement. Welsh Government does not currently provide funding forecasts for future years – for planning purposes therefore a cash flat budget for Blaenau Gwent has been assumed for the next 5 years.
Reserves	<ul style="list-style-type: none"> The financial modelling assumes no draw from General or specific reserves.

4.3 **Medium Term Financial Forecast**

4.4 The table below identifies the funding gap after applying the above assumptions to the 2019/2020 approved Estimates.

Table 2: Assessed Budget Gap

	Medium Term Budget Gap				
	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
Draft Expenditure					
Draft Estimates	147,310	151,575	154,075	155,950	155,675
Revenue Grants	22,170	22,170	22,170	22,170	22,170
Assumed Savings	0	(3,000)	(2,320)	(4,530)	(2,695)
Cost Pressures	700	350	1,000	1,000	1,000
Growth	395	180	0	0	0
Adjusted Draft Budget	170,575	171,275	174,925	174,590	176,150
Draft Funding					
AEF	110,815	110,815	110,815	110,815	110,815
Council Tax	34,590	35,970	37,410	38,910	40,465
Revenue Grants	22,170	22,170	22,170	22,170	22,170
Total Draft Funding	167,575	168,955	170,395	171,895	173,450
Budget Gap	(3000)	(2,320)	(4,530)	(2,695)	(2,700)
Contribution to Reserves	(200)	(200)	(200)	(200)	(200)
Adjusted Funding Gap	(3,200)	(2,520)	(4,730)	(2,895)	(2,900)

4.5 The table identifies a potential funding gap of £16.2m over the next 5 years should the Council continue to deliver services in their existing form.

4.6 **Additional Costs Built into the MTFS**

4.7 The draft estimates have been prepared based on the approved 2019/2020 budget and increased in line with the assumptions included in Table 1, and these costs are detailed in the table below:

Table 3: Estimated Additional Costs Compared to 2019/20 Budget

	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
Pay and Pension Inflation	1,427	1,420	1,417	1,426	1,444
General Inflation –					
Third party Expenditure	1,353	1,378	1,407	1,437	1,467
Fees & Charges	(259)	(265)	(261)	(276)	(281)
Council Tax Reduction Scheme	362	376	391	407	423
Capital Charges	257	67	1,809	0	0
TOTAL	3,996	3,850	5,654	3,903	3,980

4.8 **New and Emerging Cost Pressures**

4.9 New and emerging Cost Pressures and Growth items have been assumed at £1m per annum for 2022/2023 onwards.

4.10 Cost Pressures and Growth items totalling £1m and £0.5m have been included for 2020/2021 and 2021/2022 respectively. Cost pressures will be reviewed and updated to reflect new /emerging information for example the financial impact of Policy decisions and cost pressures emerging during the current financial year.

4.11 **Sensitivity Analysis**

4.12 The funding gap identified in table 2, is an indication of the financial challenge facing the Council. The assumptions used in the financial modelling may change over time. The following tables show the impact of changes on the Revenue Support Grant and potential decisions relating to Council Tax levels, pay & funding for Schools.

4.13 **Revenue Support Grant (RSG)**

4.14 Table 4 below indicates the impact on the funding gap based on a range of scenarios for Welsh Government funding as compared to the 2019/2020 base position. (Note: a +/-1% change in WG funding

equates to approximately £1.1m).

Table 4: Impact on RSG

	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
Cash Flat (as per MTFS)	£3.2m	£2.5m	£4.7 m	£2.9m	£2.9m
Reduction of:					
1%	£4.3m	£3.6m	£5.8m	£4.0m	£4.0m
1.5%	£4.85m	£4.15m	£6.35m	£4.55m	£4.55m
2%	£5.4m	£4.7m	£6.9m	£5.1m	£5.1m
2.5%	£5.95m	£5.25m	£7.45m	£5.65m	£5.65m
3%	£6.5m	£5.8m	£8.0m	£6.2m	£6.2m
4%	£7.6m	£6.9m	£9.1m	£7.3m	£7.3m

4.15 **Council Tax**

- 4.16 The Council increased Council Tax in 2019/2020 by 4.9%. The Council Tax increase is assumed to be 4% each year through to 2024/2025 in the MTFS. The table below sets out the implications on the Council's resources on a range of scenarios on future changes:

Table 5: Impact of changes to Council Tax Assumptions

Council Tax	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
Increase in Council Tax Yield as per MTFS – 4% per annum	1,330	1,384	1,439	1,497	1,556
Increase in Council Tax Yield per year - 4%; 3.5%; 3%; 2.5% 2% (in respective years)	1,330	1,211	1,074	922	756
Impact on Funding Gap - Increase	0	+172	+365	+575	+800
3% increase per annum	998	1,028	1,058	1,090	1,123
Impact on Funding Gap - Increase	+332	+356	+381	+407	+433
6% increase per annum	1,995	2,115	2,242	2,377	2,519
Impact on Funding Gap - Decrease	-665	-737	-803	-880	-963

4.17 **Pay**

- 4.18 The MTFs provides for a pay award of 2% per annum totalling £920,000 for 2020/2021. A change in the assumption would impact as follows:

Table 6: Impact of Changes to Pay Assumptions

Assumption Change	+/- £'000
0.5%	230
0.6%	276
1.0%	460

4.19 **Individual School Budgets (ISB)**

- 4.20 The MTFs assumes no inflationary increase to the 2019/2020 ISB. However, at September 2019, there has been an overall increase in pupil demographics of 35 pupils, and the additional funding requirement has been included within Growth items.

The 2019/2020 ISB budget is £42.8m. A change in the assumption would impact on the funding gap as follows:

Table 7: Impact of changes to ISB Assumptions

Assumption Change	+/- £'000
0.5%	214
1%	428
2.0%	856

5. **BRIDGING THE GAP PROGRAMME**

- 5.1 The Council recognises the challenges that it faces in the short, medium and long terms and has developed a programme of Strategic Business Reviews to deal with potential gaps between anticipated funding and expenditure that aims to build financial resilience. Based on strategic themes our Bridging the Gap programme will identify savings opportunities, potential cost avoidance and new revenue streams. Designed to support a balanced budget it is also focussed on creating the conditions of a commercially minded council. This

includes seeking new revenue streams and ensuring resources are aligned to the strategic imperatives of the council. Following year on year funding reductions and the increased demand, the Council needs to redesign and reshape services in order to reduce costs and maximise income. The approach has a particular emphasis on:

- Maximising the potential of income generation and taking a clearly commercial approach where it is appropriate to do so;
- Re-procurement and re-negotiation of contracts;
- Exploiting the opportunity that digital transformation can provide;
- Making best use of our assets and property;
- Considering what action we can take to influence and reduce demand;
- Looking for opportunities to support residents to do more for themselves;
- Exploiting the opportunities to strengthen financial resilience by supporting growth in the borough

- 5.2 We will continue to ensure we have secured all efficiencies and are practicing robust 'housekeeping' throughout plus seeking potential to work differently through partnership and collaboration.
- 5.3 Table 8 and 9 provides a summary of the current Strategic Business Reviews, further detail on these proposals are attached as Appendix 1.
- 5.4 Table 8 highlights the current assessment of the range of savings that could be delivered between 2020/2021 and 2024/2025. For the period of this MTFS, this is currently assessed as between £5.4m and £7.9m
- 5.5 Table 9 highlights those reviews which are in the early stages of development with longer term outcomes anticipated.

Table 8: Strategic Business Reviews

Strategic Business Reviews											
Review	Corporate Priority	Scope	Estimated Achievement 2020/2021		Estimated Achievement 2021/2022		Estimated Achievement 2022/2023		Estimated Achievement 2023/2024 & 2024/2025		BRAG Status
			Low £000	High £000	Low £000	High £000	Low £000	High £000	Low £000	High £000	
<u>Maximising Income</u>											
Industrial Portfolio	Economic Development & Regeneration		100	100	100	150	100	100	0	50	
		To review the Council's Industrial Unit Portfolio to identify areas for improvement and opportunities for change to ensure the service operates to maximise income and income efficiency in our net income streams.									
Fees and Charges	Efficient Council		200	200	100	100	100	100	100	100	
		To review and develop an approach to the setting of fees and charges that reflects full cost recovery with options for an additional administration fee of approximately 30% where this is appropriate.									
Commercial Waste	Strong & Environmentally Smart Communities		23	23	64	64	96	96	0	0	
		To roll out a new Commercial Waste service borough wide. A capital bid was submitted to Welsh Government to purchase a new bespoke vehicle and receptacles. The bid was successful and secured £250,000 (Capital) for Blaenau Gwent's Commercial Waste Service. During the financial year 2019/2020, the Trade Waste Service will undergo a full revamp with an implementation date of 1 st April 2020.									

			Estimated Achievement 2020/2021		Estimated Achievement 2021/2022		Estimated Achievement 2022/2023		Estimated Achievement 2023/2024 & 2024/2025		BRAG Status
Review	Corporate Priority	Scope	Low £000	High £000	Low £000	High £000	Low £000	High £000	Low £000	High £000	
Income Recovery	Efficient Council		54	100							
		<p>To review current income recovery activities to ensure best / efficient practices in place.</p> <p>Objectives of the review will be to ensure:-</p> <ul style="list-style-type: none"> Income recovery policies are appropriate and include early intervention actions agreed Fees & charges are implemented payment in advance of service delivery (where appropriate) thereby avoiding costs of issuing invoices easy access to various payment methods use of technology is maximised 									
Commercial activity, investment and new income	Efficient Council				50	50	50	50	50	50	
		<p>This strategic review will focus on identifying additional commercial opportunities to supplement the current activities of:</p> <ul style="list-style-type: none"> Fees and charges Developing the Industrial Portfolio Current income from traded or shared services Property Investment inside the Borough and out of the Borough Investment in energy and low carbon activities Disposals or development of assets and property <p>The review will include:</p> <ul style="list-style-type: none"> Service and baseline review of current commercial activities Opportunities to charge for discretionary services Opportunities for further traded or shared services. 									

				Estimated Achievement 2020/2021		Estimated Achievement 2021/2022		Estimated Achievement 2022/2023		Estimated Achievement 2023/2024 & 2024/2025		BRAG Status
Review	Corporate Priority	Scope	Low £000	High £000	Low £000	High £000	Low £000	High £000	Low £000	High £000		
<u>Maximising Resources</u>												
Third party expenditure – commissioning, procurement and contract management	Efficient Council		550	1,000	250	550	250	550	250	550		
		The Council holds a number of high value contracts with third party suppliers across all of its services. When re-procuring at the end of a contract all steps will be taken to ensure value for money is gained and savings achieved. Similarly during the life cycle of the contract, officer will attempt to make efficiencies where possible. Through a targeted approach to commissioning, procurement, contract and supplier management it is anticipated that savings can be identified.										
Assets and Property	Economic Development & Regeneration		130	210	100	210	150	210	0	0		
		The Council has a range of property assets that is maintains and has a cost pressure relating to its Corporate Landlord role. This review will undertake a strategic review of these assets to ascertain their value to the Council both in financial terms and what service value they afford. The aim of this strategic business review is to identify how best to maximise these assets to strengthen our balance sheet. It will consider the future use of the assets and identify those that may provide opportunities for development, commercialisation or sale. This review would include buildings and green spaces and will align with the growth strategy.										

			Estimated Achievement 2020/2021		Estimated Achievement 2021/2022		Estimated Achievement 2022/2023		Estimated Achievement 2023/2024 & 2024/2025		BRAG Status
Review	Corporate Priority	Scope	Low £000	High £000	Low £000	High £000	Low £000	High £000	Low £000	High £000	
Maximising Enablers											
Customer Experience	Efficient Council				50	50	50	50	50	50	
		Better customer experience should lead to reduced cost for the Council. This Strategic Business Review will consider the most frequent customer contact issues and review the end to end experience from the customer view. Changes and improvements in those experiences will be developed to enable customer to resolve their issues seamlessly, enabling them to self-serve as much as possible to ensure our resources are deployed for those you cannot self-serve.									
Work Place Transformation	Efficient Council		50	50	50	50	50	50	50	50	
		Building on the first phase of work place transformation this strategic business review is design to: <ul style="list-style-type: none"> • Identify cost savings in relation to ICT expenditure and contract management • Review the print and telephony arrangements to reduce costs • Implement a digital strategy to maximise the use of technology • Realise the benefits of Office 365 and collaborative working tools and reduce duplication of other ICT solutions • Enable remote working to release dependency on our building (linked to the assets and property Strategic Review) Develop our employee offer and become an employer of choice.									

			Estimated Achievement 2020/2021		Estimated Achievement 2021/2022		Estimated Achievement 2022/2023		Estimated Achievement 2023/2024 & 2024/2025		BRAG Status
Review	Corporate Priority	Scope	Low £000	High £000	Low £000	High £000	Low £000	High £000	Low £000	High £000	
Growth & Investment Strategy											
Growth Strategy	Economic Development & Regeneration		220	320	150	150	300	300	100	100	
		Our Growth Strategy describes our ambition for developing our Borough and creating new communities. This will involve a programme of housing development that will see an impact on our revenue streams through increase Council Tax. This will contribute to the MTF5 and is a critical element of building strong communities.									
Low Carbon	Efficient Council; Strong & Environmentally Smart Communities		138	138			200	350	200	350	
		Develop a Low Carbon Plan which sets out an ambitious vision and targets for BG to become a Low Carbon Borough and supports the corporate objectives of being a more Efficient Council and Strong & Environmentally Smart Communities; Scope should include:- <ul style="list-style-type: none"> Assessment of current carbon footprint to identify current good practice, gaps and opportunities to move towards being low carbon; Identify Council operations which can make a significant contribution towards a low carbon target – property, fleet, digital, energy, schools, housing – and a more efficient council, this will include where investment is needed to achieve outcomes; Community and Partner engagement to achieve a ‘Whole Borough’ approach utilising (for example) Public Service Board, Town & Community Councils, Youth Forum, Leisure Trust and other existing partnerships; Identify links to Regeneration Themes and projects taking place across the Region through CCRC, Valleys Task Force and Tech Valleys; 									
TOTAL ESTIMATED ACHIEVEMENT (@ November 2019)			1,465	2,141	914	1,374	1,346	1,856	800	1,300	

<u>Table 9: Strategic Business Reviews</u>			
Strategic Business Reviews			
Review	Corporate Priority	Scope	BRAG Status
<u>Maximising Resources</u>			
Use of external grants	Efficient Council	<p>This strategic business review is concerned with the bidding, receipt and deployment of additional grant funding that is available to the council and its partners. It is estimated that the organisation receives approximately £22m additional funding to support our priorities. This review will explore how the grants are utilised across the council to deliver outcomes for our residents. It will also review our governance arrangements to increase transparency and a One Council approach to seeking and using this additional funding.</p> <p>This review will also consider the impact of the removal of these grants and the risk placed on core funding.</p>	
<u>Managing Demand</u>			
Reducing demand by changing behaviours	Efficient Council	The Council's role in place shaping means that we need to encourage and enable communities to do as much as they can for themselves and to build resilience. This strategic business review will identify those services that experience high demand to identify any opportunities to work closely with our communities to encourage changes in behaviour. This has been done in many other locations to deal with issues relating to littering, payment of council tax and antisocial activities.	
Prevention and early intervention services	Social Services & Education	This review will focus on an evaluation of the long term impact of prevention and early intervention on reducing the requirement for high cost services and better outcomes for our most vulnerable residents.	
<u>Maximising Enablers</u>			
Using data to deliver better services	Efficient Council	Becoming a 21 st Century Council means using data and insight to drive decision making. This Strategic Business Review will identify opportunities for the sharing of data to design services and target our resources to deliver outcomes for our residents.	

5.4 As opportunities are identified through these strategic business reviews the MTFS will be updated to reflect the impact on each financial year. Some of the reviews will inevitably take longer to have an impact but will potentially yield higher returns in the latter years of this MTFS.

6. **MTFS – SCHOOLS**

6.1 For 2019/2020, the Individual Schools Budget received an uplift of 1.6%, and this was due to a number of specific grants transferring into the settlement to fund teachers' pay award (£288,000) and free school meals (£180,000) and an increase in pupil population and pensions (£200,000).

6.2 During the current financial year, schools have received a specific grant of £158,000 to fund the teachers' pay award, and Welsh Government have recently announced additional specific grant funding of £12.8m across Wales for 2019/2020 towards the pay award from September 2019. It has been assumed that this funding will continue however WG has given no indication as to whether this funding will continue into 2020/2021 or future years.

6.3 The table below highlights the potential cost increases in relation to school expenditure, compared to assumed funding increases over the next 5 years, based on the assumptions identified in table 1 above.

Table 10: Potential Cost Increases for Schools

	2020/2021 £'000	2021/2022 £'000	2022/2023 £'000	2023/2024 £'000	2024/2025 £'000
Expenditure					
Pay increases	1,240	1,300	1,350	1,420	1,490
Pension Increase – APT&C	100	105	110	110	110
Pension Increase – Teachers	1,480	0	0	0	0
Inflation – non pay	180	185	190	190	200
Inflation – Utilities	40	40	45	45	50
Total Expenditure Increase	3,040	1,630	1,695	1,765	1,850
Funding					
Proposed Increase in ISB	0	0	0	0	0
Pupil Demographics	395	0	180	0	150
Additional RSG (Grants transferred)	1,480	0	0	0	0
Total Funding Increase	1,875	0	180	0	150
Funding Gap	(1,165)	(1,630)	(1,515)	(1,765)	(1,700)

- 6.5 The table indicates that schools are potentially facing financial cost pressures of between £1.1 m and £1.8m per annum based on an annual cash flat budget for the ISB. This assumes that additional funding will continue to be provided by Welsh Government to mitigate the forecast additional costs from the increase in the employers' pension contributions for teaching staff.
- 6.6 School Balances have declined over the last few years, however in 2018/2019 there was an overall increase of £774,000, and this increase can be attributed to the specific grants schools received during the year and a decrease in the deficit balances of individual schools after implementing a number of actions to mitigate the deficit.

Table 11 – Actual School Balances (Surplus/ (Deficit)

Phase	2016/2017 £'000	2017/2018 £'000	2018/2019 £,000
Secondary	325	189	285
All Through	128	(847)	(762)
Primary	552	857	1,285
Special	(35)	81	245
TOTAL	970	280	1,054

7. Reserves Strategy

- 7.1 Financial resilience is a Council priority and this includes ensuring that reserves are adequate to be able to respond to unexpected events, emerging need or unforeseen budget pressures.
- 7.2 General reserves are unallocated amounts that enable the Council to meet non-specific and/or unforeseen financial liabilities.
- 7.3 The Council agreed a protocol for the management of general reserves in 2016, and this specifies a target level for general reserves of 4% of the last reported actual net revenue expenditure (as included in the Revenue Outturn return).
- 7.4 The level of the general reserve at 31 March 2019 is £5.894m, an in-year increase during the year of £0.412m. This outturn position represents 4.39% of net revenue expenditure as reported for 2018/19, exceeding the target by 0.39%.
- 7.5 During 2018/2019, a “Windfall” protocol was agreed by Council, whereby any in year windfall payments would be allocated directly to General Reserves in order to assist in strengthening the Council’s financial resilience and increase the general reserve.
- 7.6 Earmarked reserves are held by the Council to meet potential future expenditure on specifically identified risks, liabilities and commitments.
- 7.7 In 2015, a protocol was agreed for the establishment, retention, management, review and reporting of earmarked reserves. In addition to the statutory requirements to consider the adequacy of reserves when setting the budget and the extensive disclosures

made in the Statement of Accounts, member scrutiny has been enhanced by the preparation of detailed quarterly monitoring reports. The Chief Officer Resources also holds regular meetings during the year to consider the ongoing requirement and value of earmarked reserves held.

- 7.8 The level of earmarked reserves has declined from £21.437m at 1 April 2012 to £6.57m at 31 March 2019 (a reduction of £14.87m or 69.4%). This decrease in reserves highlights the application of sums for their intended purposes and to some extent the impact of reduced levels of funding for the Authority as a consequence of austerity.
- 7.9 In setting the 2019/20 budget, no draw down from the general reserve has been planned. A contingency of £117,000 has been built into the budget which should increase the general reserve further by March 2020.
- 7.10 It is the Council's intention to maintain the general reserves at a minimum level of 4% and increase the overall level of reserves over time to support the Council's financial resilience.
- 7.11 Given the current level of the General Reserve, it is not planned to utilise any of this reserve to balance the annual budget. The establishment of a budget contingency within the annual budget setting process is proposed of £200,000 per annum, to allow the replenishment of the Council's useable reserves.

This would result in an increase to reserves of £1m over the period of the MTFS.

8. **RISKS**

- 8.1 The Corporate Plan, MTFS and the Bridging the Gap programme are designed to complement each other. They provide the narrative that describes the outcomes we plan to deliver, the financial envelope we intend to work within, and our approach to deliver a balance budget in 2021/2022 and beyond whilst creating the conditions for improved financial resilience.
- 8.2 The risks identified with the Medium Term Financial Strategy are:

1. Exiting the European Union

There is a risk of a slow-down in the UK economic growth arising from exiting the EU with or without a deal. The impact could include an increase in both costs and demand for services.

The impact on the wider economy will depend to a large extent on the precise terms of the withdrawal agreement. It is not considered necessary at this point in time to set aside financial resources in the MTFs to assist in such a scenario. However this will need to be carefully monitored in the subsequent weeks/months.

2. Uncertainty around future WG Funding levels

The absence of any future year guidance on levels of likely settlement from WG.

3. MTFS Assumptions

The budget gap is based on a number of assumptions and any changes may have a significant impact on the funding gap.

The assumptions are reviewed and any potential changes monitored. Section 4.11 to 4.22 above models the impact on the funding gap for a range of scenarios.

4. Achievement of Bridging the Gap proposals

The achievement of planned savings is monitored as part of the budget monitoring & reporting process. Corrective action is taken where adverse variances are identified.

5. Grant Funding

The MTFs assumes that grant funding remains constant. Any decrease in funding or the termination of grant programmes could have a significant impact for the Council, particularly for those grants that are supporting service provision such as Families First, Flying Start, and ICF etc.

Welsh Treasurers works closely with the WLGA and Welsh Government to ensure that grants are maintained or transferred into the settlement.

Where grants are reduced, Services will need to ensure that expenditure is reduced in line with the grant.

6. Volume of Demand

Increased demand for services poses significant risks to planning and this will be monitored.

Document History			
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