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MEDIUM TERM FINANCIAL STRATEGY

2020-2023

Medium Term Financial Strategy

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Medium Term Financial Strategy

1. Introduction

- 1.1 The Medium Term Financial Strategy (MTFS) 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 a balanced annual budget. This MTFS covers the period 2020 to 2023.
- 1.2 The MTFS 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 that 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. Service delivery is changing and it may be that some services will no longer be available, be means tested and/or be delivered in a completely different way.
- 1.4 Reviewing the MTFS 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 real term 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 Medium Term Financial Strategy

- 2.1 The MTFS recognises that the overall level of funding from the Welsh Government will not increase and possibly fall from 2021/22 in real terms. It sets out the broad issues that will impact on the Council's financial position for 2020/21 and over the medium term. It highlights the financial parameters for the next few years and takes into account the following:
 - The Corporate Plan
 - Internal Financial Context
 - Policy decisions taken by Government(s)
 - 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 budget reductions including the generation of additional income.

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3. The Corporate Plan 2017-2022

- 3.1 The Corporate 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 Corporate Plan 2017- 22 was approved by Council in October 2017 and is reviewed annually so any changes can be incorporated in to the plan following engagement with the community and stakeholders.
- 3.2 The Corporate Plan sets out the framework for our long term aspirations and is based on 'Citizen Outcomes'. At the heart of the Outcomes is the focus on people, and working to support them to have better lives. There are eight Citizen Outcomes that detail the opportunities we want to be available for the people of Conwy both today and for future generations and are as follows:
- 1) ***People in Conwy are educated and skilled***
 - 2) ***People in Conwy are safe and feel safe***
 - 3) ***People in Conwy have access to affordable, appropriate, good quality accommodation that enhances the quality of their lives***
 - 4) ***People in Conwy are healthy and active***
 - 5) ***People in Conwy live in a county which has a prosperous economy***
 - 6) ***People in Conwy value and look after the environment***
 - 7) ***People in Conwy live in a county where heritage, culture and the Welsh language thrive***
 - 8) ***People in Conwy are informed, included, listened to, and can add to their community.***
- 3.3 The plan sets out the vision and values for the Council and details the Council's specific contribution to help deliver the eight Citizen Outcomes. These Outcomes are well embedded across the organisation's structure and working practices.
- 3.4 Planning for the future is challenging, especially given the broad range of services we provide, and the competing demands for increasingly scarce resources. All our services are committed to making improvements and finding budget reductions, so that the Council remains efficient, effective and meets the day to day needs of the communities we serve. The Corporate Plan helps us better target our limited capital and revenue resources. It also enables us to make bids for external grant support from Welsh Government, through the Growth Deal Bid for North Wales, and from other grant awarding bodies including WG.
- 3.5 The Plan also provides a framework against which we can assess our contribution to the Well-being of Future Generations (Wales) Act 2015 which outlines seven national well-being goals all public bodies named in the Act are working towards and the four aspects of sustainable development: economic, social, environmental and cultural well-being.
- 3.6 Our ambition is that by making improvements in the priority areas, we will see positive change and new opportunities not only for communities today, but also for future

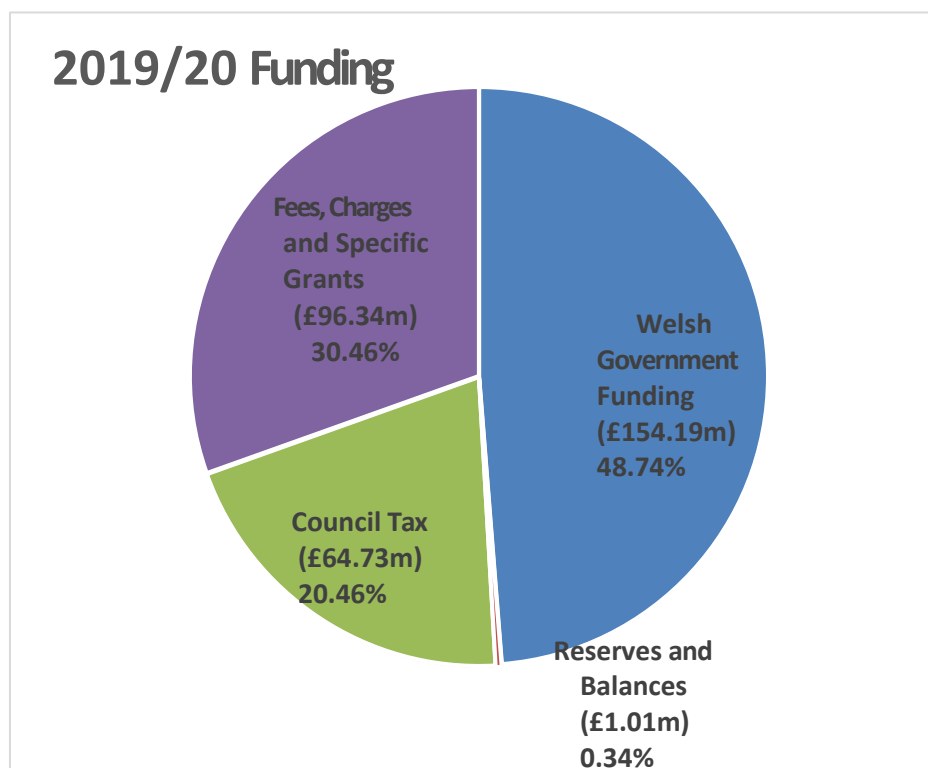
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generations. The priorities aim to be progressive and forward thinking, but they cannot be met by Conwy County Borough Council alone, particularly in such challenging financial times, and therefore it is vital we work in partnership with communities, other public sector organisations, and the Third Sector to make the improvements happen.

- 3.7 As part of the approval process for investment in assets, to support service delivery and deliver the outcomes of the Corporate Plan, consideration is given to long-term climate risk to support a low carbon economy. The Council is one of over 250 UK local authorities who have declared a climate emergency to tackle the drivers and impact of climate change.

4. Internal Financial Context

- 4.1 In 2019/20 the Council's net revenue budget requirement to be met by the council tax payers was £64.7 million (net of government grants, rents, interest and fees and charges.)
- 4.2 The Council tax base calculation for 2019/20 was 50,226 Band D equivalent properties. The overall tax base is built up from the calculations for each of the 33 community areas within Conwy. 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.
- 4.3 The Council's 2019/20 budgeted gross expenditure is £316.3 million. This expenditure is supported by fees and charges as well as by formula driven government grant and the Council Tax as shown below in the chart:



5. **External Factors**

5.1 The Council's MTFS 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 management. Other external pressures include the National Pay Awards which are set externally but have to be met from the Council's budget.

5.2 **Inflation**

5.2.1 Inflation is a component when setting the MTFS; 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). In reality, spending pressures for local government relate to service demand and policy decisions taken by Government(s) and therefore the Council Tax increase is not influenced by inflation alone.

5.2.2 CPI inflation rose by 1.5% in the year to November 2019 which is below the Bank of England's target of 2%. The Bank of England's November Inflation Report states that it expects it to fall further below target next year partly because of lower utility bills. After that it is expected to rise gradually to a little above the 2% target. The one factor contributing to that rise is expected to be faster pay growth.

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. Services are encouraged, where possible, to apply a charge that covers the full economic cost of providing the service. In setting the budgets, services are expected to maximise income where there is capacity in the market, but at the same time must be mindful of the charges levelled by our competitors.

5.3 **Interest Rates**

5.3.1 At its meeting on 30 January 2020, the Monetary Policy Committee (MPC) judged that the existing stance of monetary policy was appropriate. The MPC voted to maintain Bank Rate at 0.75%.

5.3.2 The Committee updated projections for activity and inflation which were based on the assumption of an immediate but orderly move, at the beginning of next year, to a deep free trade agreement between the United Kingdom and the European Union. CPI inflation is projected to remain below the MPC's 2% target throughout this year and much of 2021. UK GDP growth is expected to pick up in early 2020 which is due to a number of factors which include a pickup in global activity, a decline in Brexit uncertainties and the spending measures announced by the Government.

5.4 **Population**

5.4.1 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

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government funding. They do not take account of any future political or economic developments (for example Brexit). The projections look at what has been happening to the population in recent years and project it forward into the future.

- 5.4.2 Population projections are generally updated every three years or so and the last set of projections, the 2014 based projections, were published in 2016. The 2017 based population projections were due to be published by the Chief Statistician for Wales on 31 October 2019 but have been postponed following a comparison with data published by the Office for National Statistics (ONS) which showed a very different trend from previous data. This has raised some issues with regards the quality assurance of the projections that require further work.
- 5.4.3 The 2018 mid-year estimates (MYE) of population published by the (ONS) showed a projected decline in the population in Wales over the longer term.
- 5.4.4 A comparison between the 2018 mid-year estimates (MYE) and the 2014-based projection for 2018 showed an increase of 13,847 for Wales and the population as 3,138,631.

	Mid-Year 2018	2014-Based Projection for 2018	Change	%	2014-Based Projection for 2019	Change
Conwy	117,181	116,879	302	0.26	117,048	133
All Wales	3,138,631	3,124,784	13,847	0.44	3,133,336	5,295

- 5.4.4 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. As the previous recommended approach to use the 2017-based population projections was no longer an option for the calculation of the 2020/21 Local Government Revenue Settlement, the Distribution Sub-Group agreed to recommend to WG to use the 2018 Mid-Year Population Estimates in the 2020/21 settlement, phased over two years. The Distribution Sub-Group consists of representatives from Welsh Government and the Welsh Local Government Association (WLGA) who make recommendations to the Finance Sub-Group as to the basis to be used for the distribution of funding from the Welsh Government to Local Authorities in Wales.
- 5.4.5 More significant than a change in numbers is the projected changes in the demographic profile of the population. The percentage of the population in Conwy aged 65 and over is the highest in Wales at over 27%, a total of 32,154 people in 2018. The number of older people in the County is projected to increase significantly over the next 10 years as a result of increased life expectancy and the large baby boom cohort entering the retirement age groups. The estimated number of people over 65 in 2028 is 37,290, an increase of 16%. At the same time the number of children under the age of 16 is decreasing, falling from 20,200 in 2001 to 19,009 in 2018, and is expected to decrease further to about 18,756 by 2028.

Population estimates and projections (mid-year population estimates, ONS 2018-based CCBC)

Year	Total population	Aged 0 to 15	Aged 16 to 64	Aged 65 and over
2001	109,674	20,201	64,128	25,345
2002	110,624	20,214	64,786	25,624
2003	111,248	20,121	65,324	25,803
2004	112,272	20,186	66,063	26,023
2005	112,374	19,909	66,339	26,126
2006	113,004	19,734	66,896	26,374
2007	113,778	19,481	67,668	26,629
2008	114,371	19,321	67,948	27,102
2009	114,623	19,278	67,897	27,448
2010	114,682	19,149	67,621	27,912
2011	115,326	19,063	67,881	28,382
2012	115,553	19,063	67,330	29,160
2013	115,912	18,959	67,194	29,759
2014	116,420	18,938	67,033	30,449
2015	116,450	18,911	66,631	30,908
2016	116,820	18,837	66,534	31,449
2017	116,863	18,928	66,194	31,741
2018	117,181	19,009	66,018	32,154

5.5 Social Care

- 5.5.1 The National Assembly for Wales published in October 2018 the findings of the committee reviewing 'The Cost of caring for an ageing population'. The committee made nine recommendations which included a review of the funding mechanism for social care.
- 5.5.2 As part of their work the committee considered a number of the reviews into social care undertaken in recent years and particularly looked at the findings of a report by the Health Foundation, 'The Path to Sustainability' - funding projections for the NHS in Wales from 2019/20 to 2030/31, noted that pressures on publicly funded adult social care in Wales are projected to rise by around 4.1 per cent a year in real terms, using estimates from the London School of Economics and Political Science (LSE). Fully funding these pressures would require an extra £1.0 billion by 2030/31, rising to £2.3 billion from £1.3 billion in 2015/16.
- 5.5.3 This rate of growth is higher than is expected for the NHS, as social care services are heavily concentrated on the most elderly which is the group that is seeing the fastest population growth. The population estimates above suggest that Conwy will face significant financial challenges as a direct consequence of this trend together with the implications of the care crisis which is already upon us.

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5.5.4 To deal with this crisis the Welsh Government have taken advice from a group of experts and set out their plan 'A Healthier Wales: our Plan for Health and Social Care', which was updated on 1 October 2019. The plan sets out how they envisage the future of health and social care in Wales and what measures they will put in place to achieve this. The emphasis will be on investing in support to keep people 'well'; a person centred approach to care; more services to be provided outside of hospitals; and use of the latest technologies and medicines to help people get better.

5.5.5 There are five main changes proposed:-

- the health and social care system will work together,
- services will be moved from hospitals to communities,
- identify which services and treatments work well so they can be scaled up,
- make Wales a great place to work in health and social care, and
- services will work as a single system lead by the Welsh Government.

6. 2019 Spending Round Budget Statement

6.1 On 4 September 2019 the former Chancellor, Sajid Javid, announced his spending round in a statement to the House of Commons. Owing to the continuing uncertainties around the UK's exit from the European Union the Chancellor presented a one-year budget with a full multi-year review planned for 2020.

6.2 The Chancellor opened his statement stating that he would be turning the page on austerity and his plans would increase day-to-day spending at the fastest rate in 15 years. The main points outlined in his speech:

Public Services

Policing and Crime

- Confirmed funding for police 6.3% real terms increase in Home Office budgets, £715m for funding 20,000 new police officers.
- Announced an extra £30m to tackle online child exploitation
- Also announced a 5% increase for the Ministry of Justice and funding for the 10,000 new prison places promised by the Prime Minister.

Health, social care and housing

- Recommitted to previous NHS spend but announced a £6.2bn increase in NHS funding next year.
- Confirmed £2bn of new NHS capital funding – starting with an upgrade to 20 hospitals in 2019/20 and £250m for ground breaking new Artificial Intelligence technologies
- Social care spending to increase by £1.5bn (of which £0.5bn must come from English Council Tax increases)
- £54m of new funding to reduce homelessness and rough sleeping, taking total funding to £422m

Education

- Confirmed £7.1bn in education funding up to 2022-23
- The increase in funding means that every secondary school will be allocated a minimum of £5,000 per pupil by 2020-21, and every primary school £4,000 per pupil by 2021-22
- Further Education to get an extra £400m in 2020/21
- Early years spending to increase by £66m
- He said that the government will develop plans for a youth investment fund to pay for more youth centres.

Environment

- The chancellor said there will be £432m in additional funds for the Department for Environment, Food and Rural Affairs to tackle climate issues.
- There will be money earmarked for climate issues when the government publishes an infrastructure review later in 2019/20.

Economic Development & Transport

- Confirmed funding of £3.6 billion for the new Towns Fund - providing a wave of investment to regions and places
- £13bn for transport in northern England (Manchester to Leeds route of the Northern Powerhouse Rail)...more details the autumn
- £200m for bus transport across the country (trailing ultra-low emissions buses and new, on-demand services to respond to passenger needs in real time).

Regional Policy & Devolution

Compared to 2019-20, the above RDEL settlements for 2020-21 provide:

- An increase for the Welsh Government RDEL (revenue budgets) of £0.6 billion, 2.3% real terms growth
- An increase for the Scottish Government RDEL of £1.1 billion or 2.1% real terms growth
- An increase for the Northern Ireland Administration (RDEL) of £0.4 billion, 1.8% real terms growth.

Implications for the Welsh Government (WG) Budget

The additional £600 million to WG's revenue budget is around a 4% cash increase. The consequential for the education announcement and social care funding are estimated as £151m and £56m respectively.

7. The Historical Financial Challenge

- 7.1 Over the last eight years the Council's funding gap (net estimated expenditure and funding difference) has been bridged by making the following savings:

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	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Net Expenditure	192,903	192,166	209,847	218,357	215,549	214,156	218,150	220,839	228,860
Funding	186,949	188,597	204,690	209,904	205,328	205,283	208,745	214,671	220,250
Budget Reductions	-5,954	-3,569	-5,157	-8,453	-10,221	-8,873	-9,405	-6,168	-8,610

8. Conwy's Revenue Budget Preparation 2020/21

- 8.1 The recommended revenue budget for 2020/2021 is included as a separate report on this agenda. The report includes the financial plan for the first year of the three year planning period covered by this Strategy.
- 8.2 The timetable for the production of the 2020/2021 Revenue Budget is included within the Business Planning Framework which was approved by Finance and Resources Overview and Scrutiny Committee and Cabinet in September 2019 (Minutes 301 and 330 refer).
- 8.3 Members have been informed about the progress of the revenue budget by means of an update to Council and regular reports to the Finance and Resources Overview and Scrutiny Committee and Cabinet.
- 8.4 During the planning process for the budget 2020/21, Heads of Service and Strategic Directors worked with Members to confirm the service objectives that will provide the strategic direction for the Authority for the following year to inform the budget setting process.
- 8.5 The budgetary process considers equality as part of the embedded steps of service planning. All budget reduction initiatives are reviewed by services to determine whether Equality Impact Assessments are required. It must also be acknowledged that additional investment, particularly in Social Services and specialised Education Services, results in positive equality impacts. In relation to the Council Tax itself, this is a property based tax and is not based on any of the protected characteristics. Whilst it is likely that older people or those with a disability may be on lower incomes and therefore face challenges with affordability, the means tested Council Tax Reduction Scheme provides a level of support to those eligible.

2020/2021 Budget Consultation

- 8.6 Consultation on the strategic direction for the budget has been undertaken with the following who were supportive of Conwy's approach and offered suggestions as to what should be prioritised:

Elected Members

The Schools Budget Forum

The Managers Forum and the Senior Management Team

Our Union Colleagues

Engagement with the Public

Town and Community Councils

8.7 Key Messages to services for the formulation of the budget were as follows:

- Opportunities to improve the efficiency of Council services should be prioritised, for example reducing waste and inefficiency, modernising ways of working.
- Support for sustainability and protecting the environment through recycling, sustainable travel, tree planting, electric cars, reducing plastic, fly tipping.
- Opportunities to provide services differently that offer better value for money should be explored, for example more joined up working with partners, commissioning service providers in other sectors, consolidating services and encouraging greater community responsibility. However, partnership and collaborative working should be closely monitored to ensure good quality of services backed up by a robust business case, and strong evidence of sustainability.
- Any reduction in budgets across the Council should be spread across all service areas relative to the priority of the service and the ability of services to deliver such budget reductions.
- Capital resources should be reviewed to explore the release of funding opportunities to assist the revenue budget.
- The Council should increase income from fees and charges and maximise the uptake of Council services and facilities to increase the income they generate, as well as look for new, more innovative ways to generate income.

8.8 Service Pressures

Emerging unavoidable major service pressures are costed and are factored into the budget planning process and reflected in the MTFS. Requests for finance to fund service pressures follow the approved budget planning process. These are subjected to a review by Senior Management Team, Scrutiny and Cabinet prior to any recommendation to Council. Any service pressures which are not provided for or anticipated are funded through existing service budgets.

9. The Scale of the Current Financial Challenge

- 9.1 The largest single grant the Council receives is in the form of Aggregate External Finance (AEF) which comprises Revenue Support Grant and Distributable Non Domestic Rates. The AEF grant represents about 73% of the funding for Councils.

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9.2 Local Government Revenue and Capital Settlement 2020/2021

9.2.1 On 16 December 2019, the Welsh Government published the provisional local government revenue and capital settlement for Wales and after taking account of transfers of grants into the settlement the proposed increase is 3.4%. The range of increases across Wales was between 3% and 5.4% with the average increase of 4.3%

9.3 The revenue budget for 2020/2021 is covered in more detail in a separate report to Members on this agenda. The table below shows the components that make up the budget for 2020/2021 and the projected shortfall over the two years from 2021/22 to 2022/23 amounting to approximately £20 million.

Medium Term Financial Strategy 2020/21 – 2022/23

	2019/20	2020/21	2021/22	2022/23
Resource Shortfall	£'000	£'000	£'000	£'000
Council Tax Income (Base)	64,314	64,314	68,135	68,535
AEF	154,192	161,398	164,626	167,918
Reduced Losses on Collection	227	227	227	227
Council Tax Increase in Base	200	607	400	400
Contribution from Balances	68	0	0	0
Contribution from Reserves	1,000	0	0	0
Total Funding	220,001	226,546	233,388	237,080
1 Increase in Funding		-6,545	-6,842	-3,692
2 Add: Pay & Non Pay Pressures		6,125	7,000	7,200
3 Non-Recurring Savings		2,994	1,850	0
4 Estimated Business Cases:				
Capital Financing Costs		850	1,150	1,550
Social Services		5,500	3,700	4,000
Other Business Cases		2,086	2,000	2,000
Total Estimated Business Cases		8,436	6,850	7,550
5 Total Resource Shortfall (1+2+3+4)		11,010	8,858	11,058
6 Less Budget Reductions		-8,303		
7 Increase in Council Income (5+6)		2,707		

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- 9.4 The financial assumptions included for 2021/2022 and 2022/2023 – an increase in AEF funding of 2% each year; pay inflation 2%; general inflationary pressures of 2%; and an estimate of further pressures on social care and other services. Provision has also been included for an increase in capital financing costs to recognise the costs of the proposals in the capital programme for investing in infrastructure. The above table gives an indication of the savings required for 2021/2022 and 2022/2023. As part of the budget setting process and in year further pressures may be identified and there may be other factors that impact on the budget.
- 9.5 No assumption has been made for an increase in Council Tax for the years 2021/2022 and 2022/2023 as this will form part of the budget setting process for those years and is included below as a response to the resource shortfall. Any increase in Council Tax will be a decision to be taken by Council.

10. RESPONSE TO THE RESOURCE SHORTFALL

- 10.1 Clearly, the years 2021 to 2023 will require significant budget reductions as a consequence of the anticipated resource shortfall. It is important to understand that WG has only confirmed grant support through the Aggregate External Finance (AEF) for 2020/2021. The UK Government have undertaken a 'Spending Round' for 2020/2021 and as a result of the spending round WG were allocated an additional £600m. The Chancellor is due to announce the Budget for 2020/2021 on the 11 March which will no doubt signal the direction for the funding of public services moving forward. The Government have said that they will undertake a full Spending Review in 2020 of public sector spending and it has been suggested that this full review will enable them to set multi-year budgets. At this time we have no indication of what will be contained in the Spending Review for future years so we can only estimate what the AEF will be. However, the indication is that the years of austerity are over and it is assumed that funding to local authorities will increase moderately to assist with the funding pressures they face. To reflect this we have included an increase of 2% for both years.
- 10.2 Even with the prospect of additional funding the pressures on local authorities to deliver services at the same or even a reduced level is more than the funding available. There is a need to ensure that the implications of budget reductions are considered in the light of the effect on citizens and the community, which it is anticipated will be carried out in the way that Conwy has addressed these issues in previous service changes.
- 10.3 The following key areas and approach must form part of the Authority's strategy to close the emerging financial gap:-

(A) Reshaping Services

Conwy has undertaken a number of strategic approaches to manage our resources, and has been improving ways of working for many years. The Corporate Plan includes the commitment that:

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“All our services are committed to making improvements and finding savings, so that the Council remains efficient, effective and meets the day to day needs of the communities we serve.”

Conwy’s success in delivering a strategic approach to budget reductions is well established, as over the past few years we have looked at ways to streamline and improve our services and make them more efficient. The pressures of increasing demand, demand expectation, and reducing resources mean that we have to continue to change the way we work to be more efficient and effective in the use of our resources.

That said, the annual level of budget reductions experienced in recent times and expected in the future mean that it is becoming less likely that future budgets will be delivered through efficiencies alone. Future budgets are more likely to contain service cuts. We are therefore beginning a period of looking at how we can do ‘less with less’, rather than doing ‘the same with less’.

In order to meet these budget pressures and improve efficiencies across the Authority, we have a number of programmes in place which aim to improve services and modernise the way we work. The programmes aim to improve efficiency and reshape our services to meet the expectations of our residents, whilst maintaining our commitment to the most vulnerable.

(B) Regional Programmes

There are a number of regional programmes which Conwy County Borough Council is a partner within:

- Regional School Effectiveness and Improvement
- Economic Ambition
- Emergency Planning
- National Procurement
- Regional Legal Services
- ICT procurement
- Social Care programmes
- Residual Waste
- Social Services Pooled Budgets with Health
- Growth Deal Bid for North Wales

(C) Modernisation Programmes

- Primary School Modernisation Programme
- Overarching Modernisation Programme (including office accommodation and the digital agenda)

(D) Local Government Reform

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Welsh Government appointed in December 2018 a new Minister for Housing and Local Government whose responsibilities include 'Structural, democratic, financial and constitutional reform of local authorities, including co-ordination of regional delivery models and their coherence with Local Government Reform'. An update from Welsh Government was provided in November 2019 with regards progress on the reform proposals. In the near future their intention is to introduce the Local Government and Elections (Wales) Bill to the National Assembly for Wales for consideration. It will provide a new legislative framework for collaboration between local authorities, and for voluntary mergers should any authorities wish to explore this option. It will also provide local authorities with the tools to continually assess and improve their own performance. There is a recognition that there are regional arrangements in place already and with the new growth deals these will expand.

10.4 It is not possible to say precisely how much the initiatives above (A to D) will realise in the following two years but these will be identified as part of the budget setting process in year.

10.5 **Fees, Charges and Income Generation**

As part of the annual budget setting process each service considers their responsibility for setting charges in their respective service area and for ensuring that as far as possible the levels at which charges are set achieve full cost recovery. Services should increase fees and charges at least in line with the rate of inflation and employee related cost increases where possible.

Managers are encouraged to explore and exploit new business opportunities available to them, through diversification of services, expansion of partnership workings and to take a more rigorous approach on existing ways of working. Managers are also expected to maximise external sources of funding and to explore sponsorship funding for core activities. The publication by CIPFA – 'Income Generation a Practical Guide' – is a guide aimed at finance managers, service managers and Councillors and anybody interested in fees and charges generation. This has been shared with services to assist them with income generation.

Wales Audit Office have published a report on 'Charging for Services and generating income by Local Authorities'. The report has been shared with all services to again ensure they have considered all the options available for income generation and they are maximising the opportunities available.

10.6 **Contract for Services**

There are a number of initiatives focused on income generation for the selling of our services to other organisations. Examples of this include:

- Legal Services
- Translation Services
- Research Service
- Payroll

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- Internal Audit
- Financial Services

These services are currently being provided to external organisations but further opportunities to expand these services are being explored by officers.

10.7 Lower Priority Services, Demand Management, and Alternative Delivery Arrangements

Clearly, the democratic process needs to address the emerging resource shortfalls by critically reviewing our current level of service provision and supporting ways by which demand management can reduce expenditure either directly or by preventative measures.

It is also clear from the scale of the anticipated resource shortfalls that budget reductions will need to be identified from lesser priority services through the many difficult decisions that will be required particularly around the continuation of delivering our discretionary services in the way that we currently do.

It is not possible to quantify the potential of this area but it will need to feature as a significant response to the way by which the balance required is delivered to achieve the setting of a balanced budget.

10.8 Council Tax Levels

Conwy's Council Tax at Band D is below average compared with the rest of Wales (2019/2020 – 9th lowest). Consideration needs to be given to future rises for three major reasons.

- With a Council Tax at Band D consistently below the Welsh average, our local services are not funded at the level of other authorities.
- Additional income for services would mean that our service priorities would be in a better position to be sustained, in particular those services to our most vulnerable.
- The Council Tax Reduction Scheme for eligible households means that those most likely to struggle more through increases will be supported through the support arrangements.

The table below shows the additional Council Tax income from an indicative annual rise of 5% net of the payments made through the Council Tax Reduction Scheme.

Council Tax Increase

	2021-2022 £'000	2022-2023 £'000
Indicative Council Tax Increase	2,730	2,870

10.9 Summary

The key areas listed above will form part of the strategic direction for the Council in the coming years. At this stage in the process it is difficult to quantify the savings that can be achieved from the above as this will form part of the budget setting process in subsequent years. It is for Members to determine which key areas will contribute to closing the funding gap whilst still providing key services to the citizens of Conwy.

11. CAPITAL PROGRAMME

11.1 The purpose of the Capital Programme is to optimise the Authority's use of capital resources by allocation to those areas identified as representing the strategic priorities of the Council. The business cases use the data and information contained in the earlier part of this strategy to achieve the desired outcomes. The Capital Governance Framework was formally adopted to establish the mechanism and the key roles and responsibilities of officers and Members in development and management of the Capital Programme. The Council reviews its capital spending plans each year and updates the Capital Programme. A key consideration when setting the programme is the projected level of available capital resources and affordability, which is assessed through the use of prudential indicators. The Capital Programme provides a clear framework for funding and investment decisions in respect of capital assets. The recommended Capital Programme is included within this Council agenda.

Maintaining Infrastructure

11.2 It is clear that the Council needs to maintain its infrastructure, including highways and coastal protection assets, to avoid a revenue burden. The capital programme is heavily supportive of infrastructure maintenance and this needs to be uppermost in future planning.

Priorities, Risk and Resources

11.3 The Capital Programme report on this agenda provides more detail on the schemes to be approved for 2020/2021. The report highlights the limited funding available for such schemes – the bids for funding in 2020/2021 were £16.2m whereas the budget available was £6.8m. Given the limited funding available when selecting schemes for approval Members and officers assess projects in terms of delivery of the Council's strategic priorities. However, priority is also given to schemes which mitigate risk, in particular projects relating to flood alleviation and coast protection. The proposals in the report for the 2020/2021 Capital Programme are to approve an additional £5m of spend through unsupported borrowing over and above the £6.8m budget available. This would allow for a more balanced and enhanced programme which would support Members priorities in the Corporate Plan. The additional costs of supporting an enhanced programme have been included in the Capital Financing costs for 2021/2022 and 2022/2023 in the Table in paragraph 9.3.

Capital Grant Funding

- 11.4 As well as the schemes approved as part of the Capital Programme the Welsh Government and other grant giving bodies provide further grant support for specific schemes. The Council will in most cases be invited to apply for these grants and a successful application will give the Council access to significant resources for investing and delivering locally. Without this external investment most of the larger schemes undertaken by the Council would be unaffordable.

12. BALANCES AND RESERVES

It is important that Conwy maintains an appropriate level of reserves and balances. The requirement to hold these resources is acknowledged in statute. Whilst it is the responsibility of the local authority and its Chief Finance Officer to maintain a sound financial position, external auditors have a responsibility to review the arrangements in place to ensure that financial standing is soundly based.

There are three types of reserves that appear in the Council's Balance sheet and are as follows:

1. Council Fund Balance

The Council's General Balances are a contingency sum available to pay for unforeseen or exceptional circumstances. External auditors often refer to the level of general balances when considering an organisation's financial health.

The Council Fund Balance is estimated to be at a level of £2.427m moving in to 2020/2021. In the absence of a statutory minimum it is advised that this level of general balances is the minimum level for Conwy to maintain. General balances would be at a level of around 1.1% of our net revenue budget excluding schools – the lowest in Wales.

2. School Balances

These balances are held by schools and were £2.495m as at 1 April 2019. It is estimated that schools will use £1m in 2019/2020 and will need to use further balances in 2020/2021 to maintain their provision of education as best as they can, given the financial challenges that they now face.

3. Earmarked Reserves

The Council maintains service and corporate reserves for a variety of risks and purposes. Earmarked reserves were around £7m at 1 April 2019 with around £2.3m being applied during 2019/2020 to address service risks and commitments.

13. CONCLUSION

The next few years will be challenging to the Council in terms of managing its finances and resources. The potential budget pressures faced in terms of social care and

Medium Term Financial Strategy

nationally set pay awards for both Council employees and those in the private care sector means that further cuts will be inevitable for 'other services' in particular in order to set balanced budgets in the future. The Council's MTFS identifies our estimated spending requirements for 2021/22 and 2022/23. The financial plan for 2020/2021 is included within the report to Council in respect of the Budget and Council Tax 2020/2021. It is clear from the projections that sustaining priority services will be the key challenge for the Council over the coming years.

The direction taken by the Welsh Government with regards Local Government Reform with the focus on regional working will shape the emerging picture for public services and local government in Wales. It is clearly impossible to factor into the MTFS anything concrete in respect of the period beyond 2020/2021 at this point in time due to the impending announcement of the UK Budget in March 2020 and the comprehensive spending review to be carried out in 2020 which will impact on future years. Our approach in the medium term will be to ensure that 'current Conwy' remains largely intact during this period of extreme uncertainty.