DENBIGHSHIRE COUNTY COUNCIL (DRAFT)

MEDIUM TERM FINANCIAL STRATEGY 2019/2023

Contents

1 BACKGROUND

Introduction

It is important that the Council considers its finances for more than one year ahead. This allows it to plan properly for cost pressures, savings, inflation, investment in corporate priorities and service changes. Denbighshire County Council does this through its Medium Term Financial Strategy (MTFS). The Strategy takes a look at the coming three years and considers what might happen to the Council during that time and what it might mean for its finances. The MTFS sets the strategic approach to the management of the council's finances and outlines some of the key issues. Within the MTFS, the council also continually maintains a Medium Term Financial Plan (MTFP) which focuses in more detail on the forecast budget position and the underpinning financial calculations that support it.

The MTFS is a key tool to support proactive financial management. It is set within the context of the principles within the Corporate Plan 2017-22. The Corporate Plan was developed following engagement with communities and sets the priorities for the council over a five year period. The MTFS and budget processes annually will include resources to support priorities and deliver the Corporate Plan, as well as our statutory and other responsibilities.

However, the MTFS recognises a likely continuation of reductions in funding from the Welsh Government at a time when demand for services is increasing. Given that the support from Welsh Government forms the majority of the council's funding, it seems likely that if funding continues to reduce in real terms the council will not be able to continue to resource current levels of service delivery in future years.

The MTFS sets out the likelihood of significant budget pressures over the next four years and the council will have to adapt and reshape in order to meet the challenges ahead. A corporate board called the Reshaping the Council Budget Board has been established with the primary purpose of setting the strategic direction to determine the shape and size of the council at the end of 2022/23. This is in the context of a continuing period of real terms reductions in funding and growing demand pressures in key areas. Its role will help to inform how council resources are directed in future and in doing so, will approve the key assumptions within the Medium Term Financial Plan (MTFP). The Board will give direction and make recommendations in respect of service changes or funding reductions but it is not a formal decision making body. Proposals emerging to support future budgets will be subject to existing approval processes and scrutiny.

Board's Objectives

The main objectives of the Board are to:

- Define and deliver a Medium Term Financial Strategy to the end of 2022/23
- Ensure a balanced budget can be set each financial year within the programme
- Support the delivery of Corporate Priorities
- Provide a managed approach to becoming a smaller, well-run council

The council's strategic approach to trying to minimise the impact on the delivery of priorities and front-line services will encompass the following principles:

- Budget protections should be reviewed on an annual basis with decisions informed by cost/performance data, importance to delivery of the Corporate Plan and outcomes for citizens
- The Council will develop its commercial strategy and commercial acumen with a view to generating income to support core services or requiring services where possible to operate at a zero subsidy
- Internal processes will be closely examined to ensure they are lean and fit for purpose
- Corporate functions should be delivered in the most cost effective way
- Management levels will be lean and the expectations of managers will be clearly set out, accompanied by appropriate development to support them
- There will be no default service delivery model and each service will consider, via a business case whether it should deliver functions in an alternative way. This may include: in-house modification, external delivery, working in partnership or collaboration, including regional or sub regional collaboration or a combination of both.
- Preventative services are important but will be required to evidence their impact on reductions in demand and community resilience

There is an annual requirement to prepare a budget and to set the level of Council Tax. The MTFS will be updated each year as part of this process. Elected members will be kept informed of the developments of the MTFS through formal meetings, briefings and budget workshops.

The MTFS:

- Identifies what cost increases there might be in services - such as staff costs, supplies, external fees and service demand
- Sets out the economic context estimated future levels of Government funding
- Identifies the potential levels of savings needed to be delivered
- Identifies the cost of investing in priorities and how these might be funded
- Identifies any financial risks to the achievement of the Corporate Plan
- Identifies potential likely levels of Council Tax
- Set out the council’s policy on financial reserves and balances

Although it is difficult to forecast these things precisely, the MTFS allows a broad view of the Council’s financial future to be set out. In some cases, a range of values is presented with the ‘central case’ being the most likely or reasonable assumption to use for forecasting and planning. The MTFS is not intended to be a detailed explanation of all the Council services or their budgets, but to provide an overview and context for decision making.

The Wellbeing of Future Generations Act enshrines in legislation sound principles that mean the impact of decisions should be considered over a wide range of stakeholders and over a longer period. This means that whilst the council has legal obligations to set a balanced budget, the actions it takes to do this must be properly considered. The council’s budget processes in recent years have embraced these principles by undertaking thorough impact assessments of all budget decisions (including the impact on cost/saving, equality, geography, language and demography). Engagement and consultation on budget proposals is undertaken where appropriate with the relevant stakeholders, including local citizens, staff, elected members, partner organisations and trade unions. All budget decisions will continue to be assessed rigorously to ensure the impact is understood and that prudent and sustainable budgets continue to be set.

The Medium Term Financial Plan contains numerous planning assumptions and other considerations that are explained in more detail throughout this document. A summary of the potential impact (the central case) on the council is illustrated in the table below

Table 1 Medium Term Financial Plan – Central Case Assumptions (February 2019)

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Funding				
Revenue Support Grant & NNDR (RSG)	143,637	143,637	141,482	139,360
Council Tax	52,901	55,236	57,671	60,211
SSA / Budget Requirement	196,538	**198,872**	**199,153**	**199,571**
Use of Balances	2,000			
Total Funding	198,538	**198,872**	**199,153**	**199,571**
Expenditure				
Base Budget	194,418	**198,538**	**204,294**	**209,150**
Inflation / Pressures:				
Pay	1,587	519	519	519
Pensions	350	350	350	350
Living Wage		500	500	500
Price - targeted	100	100	100	100
Price - NSI Energy	150	150	150	150
CTRS / Contingency	537	350	350	350
Fire Levy	237	100	100	100
Social Services	500	500	500	500
Childrens Service	1,500			
Waste Pressures	150	900		
School Transport	600			
Schools Inflation	1,780	1,000	1,000	1,000
Schools Demography Adjustment	625	787	787	787
Contingency	500			
Other known items:				
Investment in Priorities	250	500	500	500
Transfers into/out of Settlement	426			
New Responsibilities	250			
EFFICIENCIES / SAVINGS:				
Capital and Corporate Savings	(500)			
Service Savings Phase 1	(823)			
Service Savings Phase 2	(599)			
Service Savings Phase 3	(1,221)			
Service Savings Phase 4	(333)			
Service Savings Phase 5	(376)			
Schools Efficiency Target	(1,320)			
Social Care Savings Target	(500)			
Total Expenditure	198,538	**204,294**	**209,150**	**214,006**
Funding Shortfall / (Available)	**(0)**	**5,421**	**9,997**	**14,435**
Annual increase/(decrease) in shortfall	**(0)**	**5,421**	**4,575**	**4,438**
Key Assumptions				
Settlement %	0.00%	0.00%	-1.50%	-1.50%
Council Tax Increase % Band D	6.35%	3.80%	3.80%	3.80%

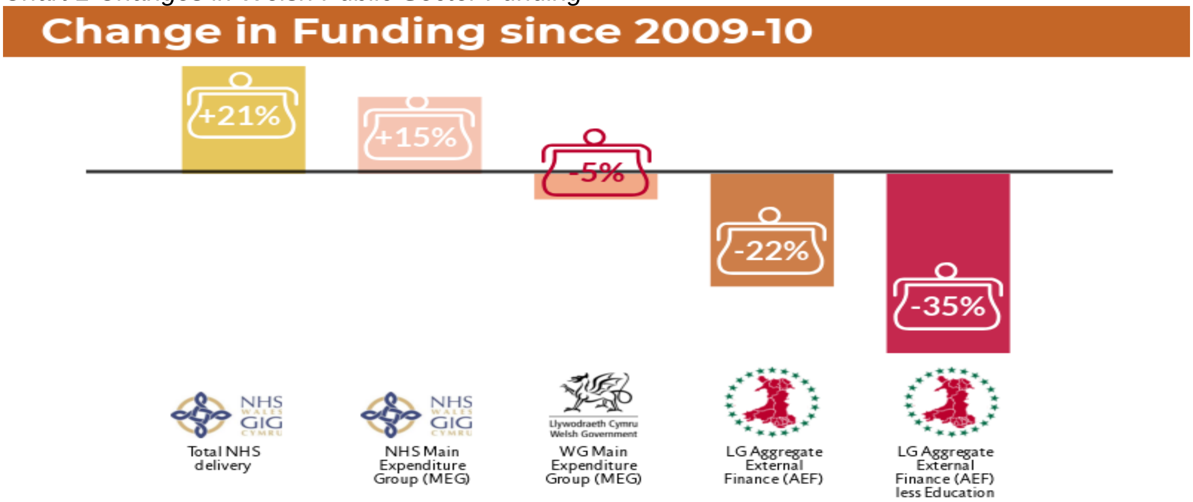
2 ECONOMIC BACKDROP & REVIEW

The majority of the Council's net revenue funding is from the Welsh Government (WG) in the form of Revenue Support Grant (RSG) and a share of the National Non Domestic Rates Pool (NNDR). Together they constitute the Council's Aggregate External Finance (AEF) sometimes called 'the settlement' and as this provides over 70% of the Council's funding, it is the major determinant of the annual revenue budget.

The past eight years have seen public expenditure reduce in most sectors. UK government targets and policies to reduce the level of national debt compared to GDP and eliminate in-year budget deficits have been more concentrated on reducing public expenditure, than increasing taxation burdens. While some progress has been made in the achievement of both key aims, the elimination of the national budget deficit in the short term seems unlikely and while the level of debt to GDP has reduced, it remains relatively high. Taken with the continuing levels of slow growth in the economy, the prospect of continued public sector spending cuts seems inevitable.

The impact of continued real term reductions to council budgets in Wales is having a significant impact. Government policy in Wales has been invest more in health budgets (a 21% uplift since 2009 compared to a reduction in council budgets of 35% over the same period when expenditure on schools is excluded). The chart below illustrates this:

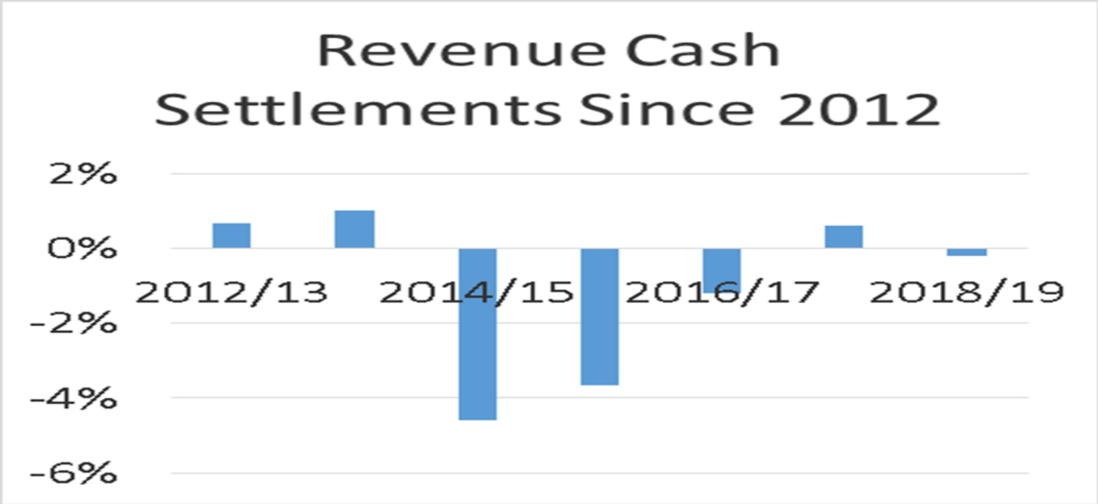
Chart 1 Changes in Welsh Public Sector Funding



WLGA September 2018

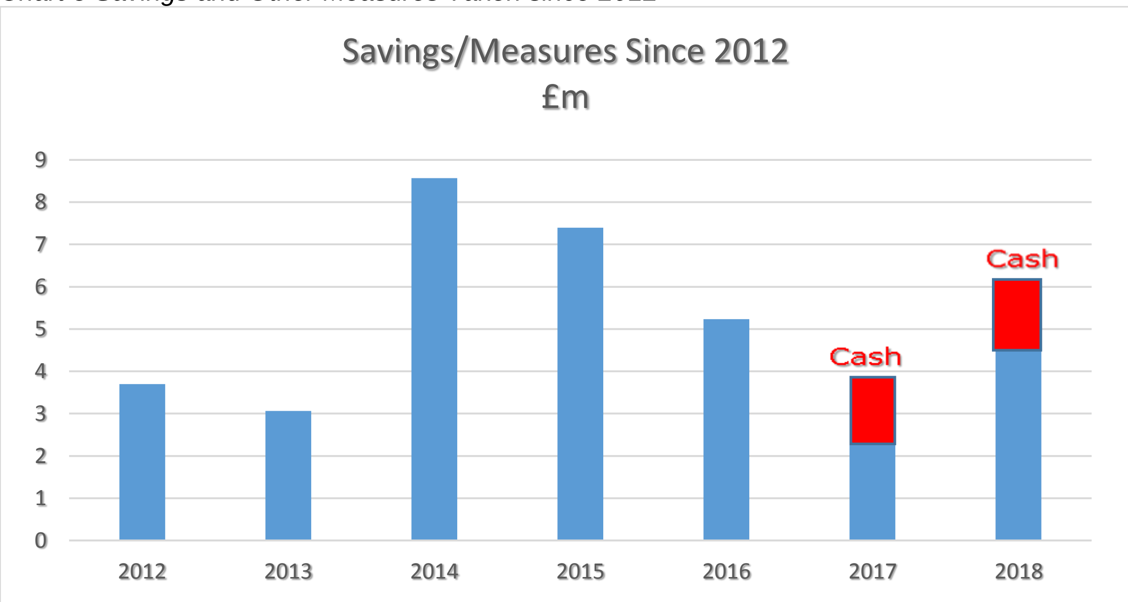
The following chart shows how the impact of the national position above has affected the level of financial settlement the council receives from Welsh Government.

Chart 2 Changes in Denbighshire Revenue Settlements



As the settlement from the Welsh Government accounts for almost three-quarters of the council's net funding, reductions to the level of financial settlement, or indeed, small increases that do not sufficiently cover unavoidable inflationary and other costs, it means the council has to make savings or take other measures in response. The consequential actions required to balance the budget each year have amounted to £34.8m as follows:

Chart 3 Savings and Other Measures Taken since 2012



The chart shows that the savings and measures taken increase as reductions to the levels of settlement increase. However, it also shows, in recent years that even with smaller cash reductions, the impact of inflationary and other growth pressures is becoming more significant. The council's approach to balancing the budgets in recent years has involved a careful balance between savings, Council Tax and short-term cash support. The latter is not a permanent solution to budget deficits but helps to smooth the impact over a longer period, thus reducing the impact on service delivery.

The outlook over the medium term remains uncertain. The details set out in the 2018Autumn budget are below but the more significant event will be the proposed spending review, scheduled to take place during 2019. The spring 2019 budget did not make any major spending plan changes but again referred to the forthcoming spending review setting public spending targets for the next three years. The Office for Budget Responsibility (OBR) forecasts suggest there is scope to increase public expenditure in real terms over the period of the spending review.

The UK Autumn Budget 2018 set out the following specific economic forecasts:

- On GDP growth, the Office for Budget Responsibility (OBR) expect growth to be resilient across the forecast period, improving next year from the 1.3% forecast at the Spring Statement to 1.6%, then 1.4% in 2020 and 2021; 1.5% in 2022; and 1.6% in 2023 (Although this is still quite weak in historical terms and compared to OECD partners)

- The Chancellor said that with regular pay growth at 3.1%, its strongest in almost a decade and inflation forecast to average 2% next year, the OBR is forecasting sustained real wage growth in each of the next five years.

- The deficit is due to be less than 1.4% next year, falling to 0.8% in 2023/24. Borrowing will fall to its lowest structural level for 20 years.

- National debt peaked in 2016/17 at 85.2% of GDP and then falls in every year of the forecast from 83.7% this year; to 74.1% in 23-24

On public spending relevant to Wales:

- The Chancellor said the OBR confirms a “significant improvement” in the public finances so he can set out a new path for public spending.

- Next year there will be a full spending review, but he is setting out a five-year path for additional departmental spending.

- In 2015 real spending growth was negative and next year it will be positive.

- The NHS is the public’s number one priority and the government will increase its budget by £20.5 billion after inflation by 2023-24.

- Within this, the NHS will increase mental health spending by more than £2 billion a year by 2023-24.

- The NHS 10-year plan will include a new NHS crisis service, he said. Children and young people’s crisis teams will be available in all parts of the country

Regional Policy & Devolution

Scotland, Wales and Northern Ireland will all get more money to spend in devolved areas, including education, health and housing. This Budget means:

- over £950 million more for the Scottish Government through to 2020-21
- over £550 million more for the Welsh Government through to 2020-21
- over £320 million more for a Northern Ireland Executive through to 2020-21

Implications for the Welsh Government Budget

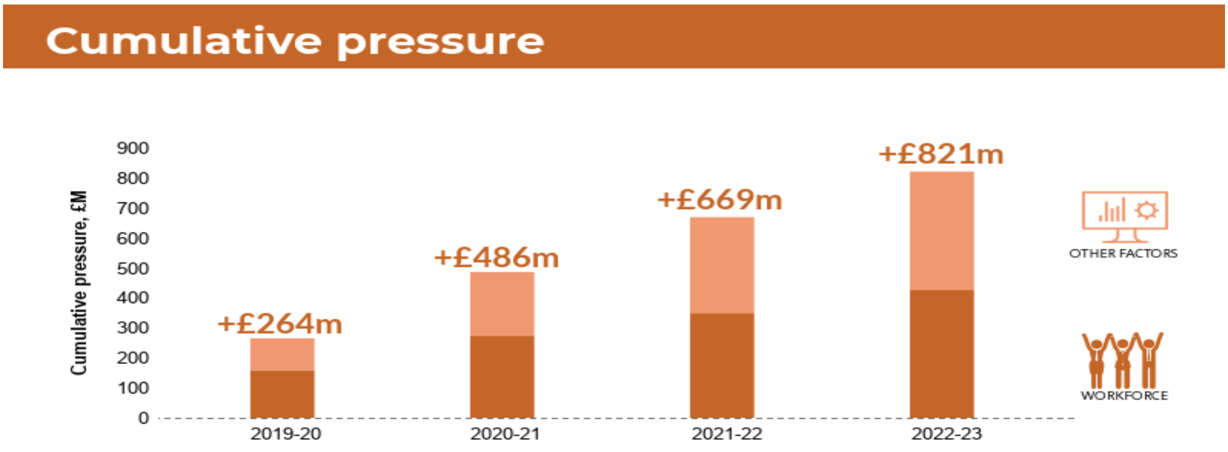
The Treasury's Red Book and the Welsh Office Press Release (Annex III) refer to an additional £550m for Wales. The Welsh Government's Press Release (Annex I) breaks this down as £486m revenue (for 2018-19 and 2019-20) and £68m capital (between 2018-19 and 2020-21), so around £554m altogether.

The UK budget announcements followed the draft Welsh government proposals for 2019/20, of which the main points were:

- Total Managed Expenditure had increased by £1.2bn (5.6%) which was split between the revenue budget £962m (5.2%) and the capital budget £225m (9.2%).
- The Welsh Government's Budget for Total Managed Expenditure grew in in cash terms from £21.0bn to £22.2bn, an increase of £1.2bn, or 5.6%.

Within the context of the national funding position, the WLGA have estimated the level of cost increases facing local government in the coming years, shown in the following graphic. The percentage increase in settlement required from Welsh Government to fully meet these costs pressures in 2019/20 would be over 6%.

Chart 4 Local Government Pressures



WLGA September 2018

The settlement for local government in Wales for 2019/20 did not reflect this increasing cost pressure resulting position for local government in Wales was a cash increase of +0.2% and for Denbighshire specifically it was 0%. This is detailed in the two following tables, showing the Welsh and local final settlement details.

Table 2 Wales Final Settlement 2019/20

Dataset	2018-19 (£000)	2019-20 (£000)	Increase (£000)	% Increase
AEF				
Overall Aggregate External Finance plus top-up funding	4,214,067	4,237,431	23,364	0.6%
AEF plus top-up funding per capita (£)	1,348	1,352	4	0.3%
AEF adjusted for transfers plus top-up funding	4,227,136	4,237,431	10,295	0.2%
Capital Settlement				
General Capital Grant	104,037	84,037		
Unhypothecated Capital Support	88,800	88,800		
Total General Capital Funding	192,837	172,837		

Welsh Government Final Local Government Settlement 2019/20

Table 3 Denbighshire Final Settlement 2019/20

Dataset	2018-19 (£000)	2019-20 (£000)	Increase (£000)	% Increase
AEF				
Overall Aggregate External Finance plus top-up funding	143,171	143,637	466	0.3%
AEF plus top-up funding per capita (£)	1,499	1,500	2	0.1%
AEF adjusted for transfers plus top-up funding	143,597	143,637	40	0.0%
Capital Settlement				
General Capital Grant	3,521	2,822	-699	-19.8%
Unhypothecated Capital Support	3,005	2,982	-23	-0.8%
Total General Capital Funding	6,526	5,804	-722	-11.1%

Welsh Government Final Local Government Settlement 2019/20 – Denbighshire

3 MEDIUM TERM PLANNING – FORWARD ASSUMPTIONS

Funding

The Council is heavily reliant on Welsh Government funding for around 75% of its net revenue income. The core element is the Revenue Support Grant and the redistributed business rates income. Together these two form the ‘Aggregate External Finance’ (or AEF) received by the council in its financial settlement. It is crucial that the Council understands what this level of financial settlement may be from year to year. There are generally no reliable forward planning figures provided so it rests with the council to try to estimate what the range of values might be. Given the analysis of the most recent UK and Welsh budgets budget and the real-terms increases in the Welsh Government budget and allowing for NHS funding to match per-head spending increases in England, there is scope for spending on local government to be protected. This will be a choice for the Welsh Government to consider but given that position, it is not unreasonable to use an assumption of flat cash or 0% as the planning figure for the 2021/22 budget. Future years’ forecasts should be made clearer following the proposed spending review in 2019.

Given that approximately three quarters of the council’s net funding is received via the Welsh Government, changes to the annual settlement have a significant impact. For every percentage reduction, the cash impact is a reduction of £1.436m based on the

2018/19 budget. The impact of a range of settlement values is illustrated below with the base case being 0%.

Table 4 Sensitivity Analysis – Revenue Settlement

%age Change	Cash Reduction £000	Change from MTFP Assumption £000
0.0%	0	0
-0.1%	-144	-144
-0.2%	-287	-287
-0.3%	-431	-431
-0.4%	-575	-575
-0.5%	-718	-718
-0.6%	-862	-862
-0.7%	-1,005	-1,005
-0.8%	-1,149	-1,149
-0.9%	-1,293	-1,293
-1.0%	-1,436	-1,436
-1.1%	-1,580	-1,580
-1.2%	-1,724	-1,724
-1.3%	-1,867	-1,867
-1.4%	-2,011	-2,011
-1.5%	-2,155	-2,155
-1.6%	-2,298	-2,298
-1.7%	-2,442	-2,442
-1.8%	-2,585	-2,585
-1.9%	-2,729	-2,729
-2.0%	-2,873	-2,873

The likely reductions in cash funding settlements are only part of the equation. As noted earlier, Welsh councils are also reliant upon significant levels of specific grants which have been cut in recent years. As well as cuts to funding, the council also has to absorb inflationary pressures and increased demand for services in some sectors, particularly social care and increasingly in schools.

Council Tax

Council Tax provides around 25% of the council's net revenue budget funding. Council Tax levels in Denbighshire were relatively high in 2012 but have, over the last six years increased at a lower than average rate compared to other Welsh councils, resulting in Council Tax levels now being close to the Welsh average. A balance has to be struck between the ability to raise enough money to fund important services to the right level and the impact increasing taxation will have on residents of the County. The figure used in planning assumptions is 3.8% but this is ultimately a that elected members will make each year having considered the financial situation, the impact of funding changes to services and the impact on residents.

The success of the strategy to redress the relatively high Council Tax position in 2012 is highlighted in the graphs below. The first shows the gap between the average Band D valuation in Wales (the most common comparator of Council Tax levels) continually narrowing, which is as a result of the average rise annually being continually less than the average in Wales since 2013, as demonstrated in the second graph.

Chart 5 Band D Council Tax Levels

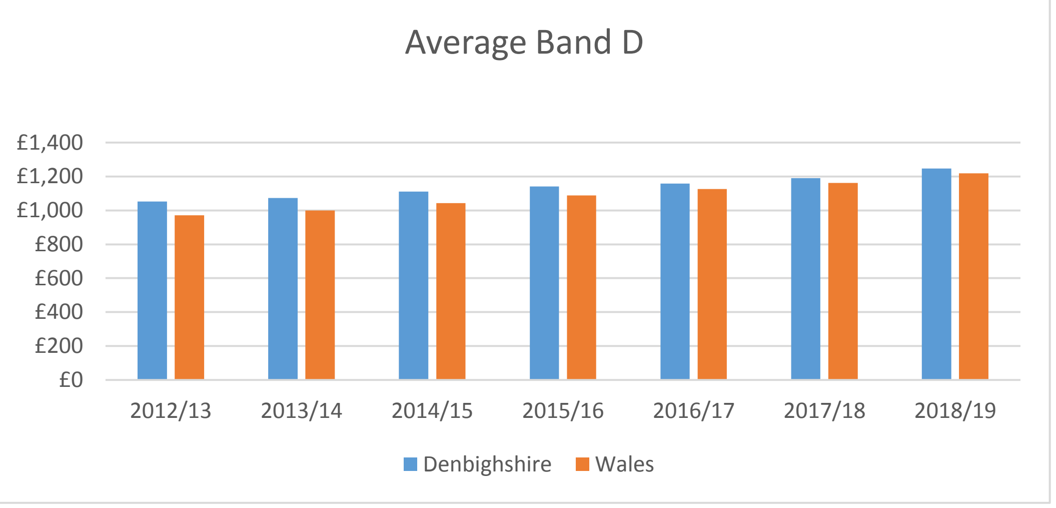
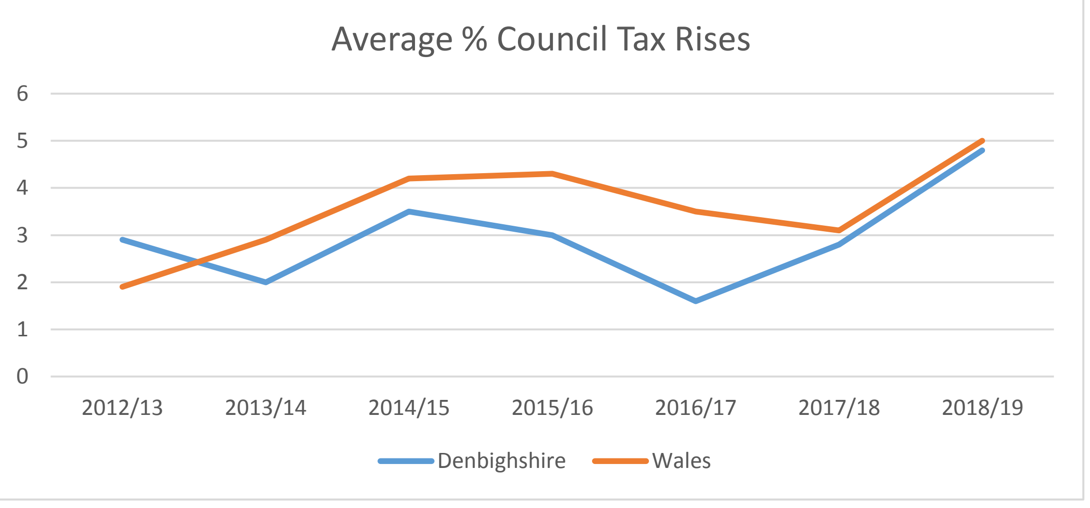


Chart 6 Average Band D Rises – Trend Analysis



Other Assumptions

In addition to key funding assumptions pressures included above, there are pressures that have to be considered. These are noted in the MTFP summary on page x and include pay and pension cost increases, general inflation on energy and business rates, growth pressures in social care, school demography changes, increased cost of waste management, etc. A key point to recognise is that the majority of these cost increases arise due to factors beyond the control of the council. As government funding is insufficient to fund them, more of the burden falls on Council Tax payers and/or services have to be cut.

4. BUDGET PROCESS 2020/21

Principles of the 2020/21 Budget Process

The council's budget board will determine the process but it will build on the approach and principles applied that successfully delivered the 2019/20 budget. The Board will constantly keep assumptions underpinning cost pressures and funding under review and endorse central case assumptions.

The process for 2020/21 begins with the estimated budget gap (per the summary MTFP on page xx) and establishes a methodology and timeline to deliver the budget. The process will involve savings targets being issued to services and schools and for proposals to meet the targets to be developed. It does not mean that the target figure will be the final savings figure applied. A key element of the budget process is to try to develop options to deal with a funding gap early but only to take decisions when the funding position and cost of pressures is certain. The process outlined is flexible in this respect.

The process will require services to review all fees and charges (in line with council policy) and to try to identify efficiency savings where possible. These will be assumed in service proposals. A number of key corporate projects are underway that should help to contribute to some services' savings targets.

As part of the process, a review of each services will be undertaken, including current savings, reserves and income. Workshops with elected members have been factored into the process and there will be regular updates to the Corporate Governance Committee. Trade unions will be kept informed and consulted as the process develops.

There will be broad public engagement early in the process to help inform the council's understanding of stakeholder's views.

The budget process will require Wellbeing Impact Assessments to be completed where necessary to inform budget decisions. A timeline that sets out the key steps and approval processes is attached as Appendix 1.

5 THE CORPORATE PLAN

During 2017/18 the Council continued its commitment to delivering the 2012-2017 Corporate Plan which aimed to deliver significant investment in schools, social care facilities and roads.

Expenditure on Corporate Plan projects was £16.8m in 2017/18 which included £7.9m on the two Ruthin schools at the Glasdir site, £3.2m on Ysgol Glan Clwyd, £1.4m on the Faith School in Rhyl and £3.0m on highways maintenance and bridges. While the current five-year Plan ended in 2017/18, it was always envisaged that some of the major investment projects within it would be delivered over a longer timeframe – therefore planned investment of £41m will roll forward into the next two years. These projects include two further schools in the Ruthin area and a completion of the new faith school in Rhyl.

Following Council elections in 2017, the council approved the new Corporate Plan 2017-2022: 'Working Together for the Future of Denbighshire' which builds on this track record of delivery. The overall ambition of this Plan is to ensure that Denbighshire is a place where residents and businesses are well connected and resilient; where young people have opportunities for affordable housing and acquire skills and jobs to lead successful and fulfilling lives and where we can all enjoy an attractive and protected environment. Like the last plan, this Corporate Plan contains specific actions that will be delivered over five years but, perhaps even more importantly, these actions are designed to have an impact beyond the next five years with future generations in mind.

This Corporate Plan sets out ambitious but deliverable priorities for the next five years. Some of these priorities will require significant capital investment, others revenue funding, and some may be delivered at no additional cost. It is estimated that investment of approximately £135m will be required to deliver the ambition. Not all of this would be funded by the council.

To pay for the investment identified, revenue budgets and cash have to be identified. During 2017/18, £0.5m revenue budget for 2018/19 and £1m cash was identified to support the new corporate priorities. A further £0.5m budget has been agreed in the 2019/20 budget. Future annual budget allocations will be required, but it is recognised that this will be difficult to achieve if the Council's total budget continues to reduce and service pressures grow.

Although £135m is a large sum, the Council would not have to provide all of this money itself. Welsh Government will be available to help fund the planned work to improve our schools and flood defences and income from housing rents will help to fund the new council housing. Ultimately, the Council may have to contribute around £71m of the £135m.

6 BALANCES & RESERVES STRATEGY

There is a clear statutory requirement for council's to hold balances and to keep reserves. 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.

There are also other safeguards in place that help to prevent council's from over-committing themselves financially. These include:

- The balanced budget requirement (Local Government Finance Act 1992 – section 32 and 43).
- Head of Finance's duty to report on the robustness of estimates and adequacy of reserves (Local Government Act 2003 section 25) when the Council is considering the budget requirement.
- Legislative requirement for the Council to make arrangements for the proper administration of their financial affairs and that the Head of Finance has responsibility for the administration of those affairs (section 151 of the Local Government Finance Act 1992).
- The requirements of Cipfa's Prudential Code – the Code requires the Head of Finance to have full regard to affordability when making recommendations about the Council's Capital Programme. Such consideration includes the level

of long term revenue commitments. In considering the affordability of the Council's capital plans, the Head of Finance is required to consider all of the resources available to the Council, estimated for the future, together with the totality of its capital plans and revenue forecasts for the forthcoming year and the following two years. There is a requirement for three year revenue forecasts across the public sector and this is achieved through the Medium Term Financial Plan (MTFP).

- Wales Audit Office will consider whether the Council has established adequate arrangements to ensure that the Council's financial position is soundly based.

These requirements are reinforced by section 114 of the Local Government Finance Act 1988, which requires the Head of Finance to report if there is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the Council will not have the resources to meet its expenditure in a particular financial year.

The Council therefore sets aside money to allow it to meet known or unforeseen issues but in the context of a well-defined legal framework. This money is put into reserves when the Council wants to fund a specific project at some point in the future, for example a new IT system. It keeps general balances for use in emergency situations when no other funding is available. In the past the Council's general balances were far too low and it worked hard to rebuild them but over recent years, general balances have stabilised to a reasonable position.

Cash resources can play an important part in a period of financial difficulty. In such periods, it may be tempting to use balances and reserves to meet normal expenditure requirements rather than make difficult budget decisions. But this can only be a short term measure and should not be viewed as a permanent solution. However, if cash is used in a planned and sensible way, it can mitigate the impact of funding cuts and help to protect service delivery. It is important that balances and reserves are maintained at a sufficient level for the Council to ensure it is in a safe financial position but also to ensure they are properly considered as part of the budget setting process. It is therefore about getting the balance right between supporting service delivery and prudent financial management.

The budget set in 2019/20 assumed a funding requirement from a specific reserve of £2.0m. This is money that had been previously set aside to support the 2019/20 budget. Previous years' budgets have also used cash (previously identified) to support the budget. The position will be reviewed again as part of the 2018/19 budget process.

Earmarked (cashable) reserves are set aside to mitigate the risk of a future liability or established as part of a planned funding strategy. For example, the council's reserves include significant funds set aside as part of the funding for the Corporate Plan. All reserves are reviewed annually as part of the budget process.

There is no prescribed level of general balances that councils must keep. It is a matter for each council to consider, taking into account risk and affordability. Taking these issues into account, the council should aim to achieve a minimum General Fund unallocated reserves balance of 2.5% of net budget or £5m, whichever is greater. The current balance is £7.1m, which is 3.6% of the council's net budget. Details of the council's reserves and balances are set in the following tables and can be found in more detail in the published statement of accounts.

Table 5 Usable Reserves

31 March 2017 £000		31 March 2018 £000
(7,549)	Council Fund	(7,541)
(29,210)	Earmarked Reserves)	(29,459)
(2,547)	Housing Revenue Account	(2,203)
(4,846)	Capital Receipts Reserve	(5,374)
(3,807)	Capital Grants Unapplied	(3,150)
(47,959)	**Total Usable Reserves**	**(47,727)**

Revenue Balances

The Council Fund revenue balances are available to the County Council for general or specific purposes and represent accumulation of past surpluses on the Council Fund Revenue Account. The Housing Revenue Account balances do not form part of the Council Fund Balances and are identified separately.

Table 6 Council Balances

	31 March 2018 £000
Council Fund Revenue Balances	
General Balances	(7,135)
Earmarked Balances	(406)
Total Council Fund Balances	**(7,541)**
Housing Revenue Account Balances	**(2,203)**

7 INVESTMENTS & BORROWING

The Council has a clear Treasury Management Strategy that sets out how it will invest and borrow and what risks are involved. This is presented to full Council each February with regular updates reported during the year. It is assumed that over the next 3 years interest rates will remain broadly static. When investing, the council's policy is to take a prudent and balanced view of security and liquidity over yield. Borrowing and the cost of borrowing is kept under close review and annually a set of prudential indicators are produced that set out the medium-long term financial impact of capital investment and borrowing decisions to ensure they remain prudent, affordable and sustainable.

8 GRANTS

Other than its main revenue grant, the Council also relies on numerous other specific government grants to support service delivery or specific government policies. Grants can be cut or stopped altogether. The council's policy is to pass grant reductions directly onto the service provision affected – including any match-funding elements.

9 COMMERCIALISATION STRATEGY

The council will look to move services where income generation is possible toward being self-funded or reducing the financial subsidy where possible. It will also consider alternative approaches to service delivery as a means of trying to sustain the service. An alternative approach can mean in-house modification, commercial partnership, working with other councils or public bodies, community partnerships, etc. The council is developing a commercialisation strategy that underpins this approach and fits with other policies such as the fees and charges policy and the a detailed framework it has developed to assess any business case proposal to consider an alternative service delivery model.

10 INCOME, FEES & CHARGES

These are reviewed as part of the budget process and will continue to be going forward. Where the council has discretion over a charge or fee, the decision to alter the levels rests with the Head of Service., The council has a comprehensive policy on its approach to fees and charges. The key principles are to recover full costs and to increase fees appropriately. The full policy can be found by following the link below:

12 CAPITAL

The money that the Council spends on looking after its buildings, roads, equipment, vehicles and other assets, is called capital expenditure. By law it must keep its day to day expenditure (revenue) and its capital expenditure separate. The council pays for expenditure on its assets in three main ways – grants, borrowing and selling off unwanted property and equipment (capital receipts). Each of these ways of raising money has been badly hit recently.

The Council produces a rolling Capital Plan that details where it is likely to spend its funds. Every bid for capital resources is reviewed and prioritised by the Strategic Investment Group (a group made up of elected members and senior officers) before being considered for inclusion in the Capital Plan.

Each year the Council sets Prudential Indicators that determine prudent limits on its borrowing. These are set out in the Council's Treasury Management Strategy and in the annual capital report to ensure that borrowing remains affordable.

Appendix 2 shows the Capital Plan in more detail as approved by council in February 2019.

11 HOUSING REVENUE ACCOUNT

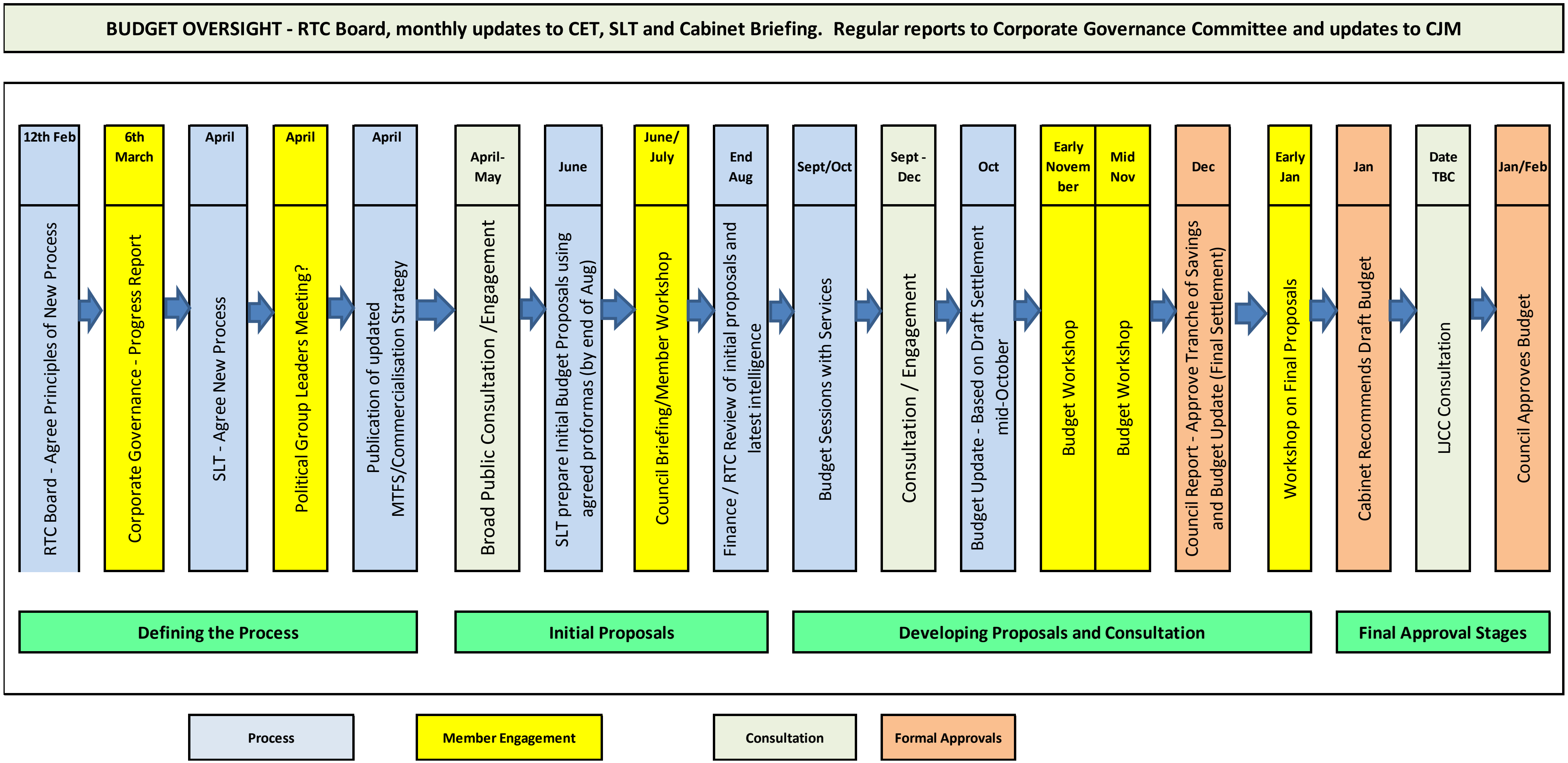
By law, the finances for the Council's housing stock are kept separate from the rest of the Council. Any expenditure must be financed from rents or grant from the Welsh Government. Rent policy is determined by Welsh Government which includes control over rent increases. The Council currently has a 30 year housing stock business plan that is reviewed each year and subject to scrutiny by the Wales Audit Office and the Welsh Government.

In April 2015, there was a national agreement to abolish the subsidy system which underpinned local authority housing finance in Wales. In place of the subsidy, a system of self-financing has been introduced that means councils retain all of the rent they collect and can invest the additional resources into the existing or new housing stock.

The HRA Housing Stock Business Plan (HSBP) now includes provision to increase the housing stock by investing £15m over the next four years and the 30 year plan remains in surplus and viable throughout. A summary of the HSBP is enclosed as Appendix 3.

Appendix 1

APPENDIX 1 PROPOSED BUDGET PROCESS 2020/21 (DRAFT)



Appendix 2 Denbighshire County Council - Capital Plan 2018/19 - 2021/22

		ORIGINAL ESTIMATE £000s	LATEST ESTIMATE £000s	LATEST ESTIMATE £000s	LATEST ESTIMATE £000s	LATEST ESTIMATE £000s
Capital Expenditure						
	Total Estimated Payments - Other	9,355	18,681	17,831	8,453	0
	Total Estimated Payments - Major Projects:					
	Housing Improvement Grants	1,416	1,556			
	Rhyl, New 3-16 Catholic School		11,604	10,386	332	
	Ysgol Llanfair, New School		3,676	995	169	
	Ysgol Carreg Emlyn, New School		2,818	1,460	83	
	Highways Maintenance	3,070	3,152	4,695		
	East Rhyl Coastal Defence Scheme	2,634	667	2,417		
	Rhyl Waterfront and Waterpark	10,721	10,545	530		
	Contingency	500	0	505	500	500
	Total	**27,696**	**52,699**	**38,819**	**9,537**	**500**
Capital Financing						
External Funding		12,184	17,729	20,128	9,367	4,796
Receipts and Reserves		2,908	9,744	2,232	893	
Prudential Borrowing		12,604	25,226	16,459	4,245	0
Unallocated Funding		0	0	0	(4,968)	(4,296)
	Total Capital Financing	**27,696**	**52,699**	**38,819**	**9,537**	**500**

Appendix 3

HOUSING STOCK BUSINESS PLAN 2018/19 - 2022/23

NB Figures Restated for 2018/19 Final Outturn Figures

SUMMARY	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
CAPITAL EXPENDITURE					
Planned Improvements	5,067	6,106	5,265	5,581	6,272
New Build	0	2,961	10,761	11,342	0
Acquisition of existing properties/land	2,715	1,809	354	0	0
Other improvements	850	1,381	762	716	797
	8,632	**12,257**	**17,142**	**17,639**	**7,069**
CAPITAL FUNDING					
Major Repairs Allowance	2,412	2,420	2,420	2,420	2,420
Usable Capital Receipts	72	1,820	1,200	2,150	0
Other Funding Sources	1,113	0	0	0	0
Capital Funded From Revenue	2,458	2,136	1,093	796	627
Prudential Borrowing	2,577	5,881	12,429	12,273	4,022
	8,632	**12,257**	**17,142**	**17,639**	**7,069**
Management ~ General	2,990	3,156	3,257	3,384	3,484
Repairs & Maintenance	4,866	4,835	4,929	5,024	5,162
Capital Funded From Revenue	2,458	2,136	1,093	796	627
Provision for Bad Debts	137	243	244	246	248
Capital Financing Costs	5,933	6,736	7,300	8,350	9,151
	16,384	**17,106**	**16,823**	**17,800**	**18,672**
REVENUE INCOME					
Rental Income	15,427	16,132	16,514	17,349	18,040
Voids	-246	-279	-285	-299	-311
Service Charges	340	364	375	387	398
Garage Income	178	188	197	207	217
Affordable Housing Grant	71	135	135	135	135
Interest on Balances and other income	95	7	6	6	6
	15,865	**16,547**	**16,942**	**17,785**	**18,485**
BALANCES					
Balance brought forward	2,203	1,684	1,125	1,244	1,229
Surplus / Deficit (-) For Year	-519	-559	119	-15	-187
Balance carried forward	**1,684**	**1,125**	**1,244**	**1,229**	**1,042**