ITEM 16

Hawarden Community Council.

Medium Term Financial Plan.

1. Purpose.

The Medium Term Financial Plan assists the Council's financial planning over a number of years to address local challenges, deliver the Council's strategic aims and meet community priorities.

The Plan has been prepared on the basis of four key principles: -

1. Maintaining existing services and ensuring a balanced Budget;
2. Ensuring one off purchases are spread over a number of years.
3. Safeguarding a prudent level of balances and reserves; and
4. Keeping any future increases in council tax as low as possible.

The plan will also assist Community Councillors to understand the processes the Financial Working Group go through when preparing the budget.

2. The Budget Process

Setting a strong budget requires a focus on the previous year's financial results, likely future challenges and on the current situation.

The next budget is always set whilst the current budget has a number of months to run and any projection of likely outcomes is at best an estimate, an indicator of what may happen but not yet a fact to be relied on. The following shows the time frame for setting budget C.

Budget A completed the previous March.
Budget B started last April
Setting budget C November to January
Budget B will be completed next March.
Budget C will start next April.

3. Long Term Projects.

The Council may embark on long term projects either because the cost in any one year would be too great for the budget or because the work could not be completed in one year. For such items a plan will be required and the annual amount included in the budget for each of the years in the plan. The amount for any year may be adjusted if financial pressures dictate.

4. Reserves

Reserves fall into two categories, General and Earmarked. General Reserves are held to cushion uneven cash flows and the impact of unexpected events or emergencies. **An amount of between three and twelve months precept is considered appropriate**. Earmarked Reserves are established to "save up" so significant expenditure, say for a new vehicle, is spread over a number of years. The Hawarden Community Council Budget has a number of lines where there is a need to spread the cost over a number of years.

A spreadsheet will be created and maintained showing the items in Earmarked Reserves. For each item the following will be shown.

a. The name of the item.
b. The date on which the item is expected to be replaced.
c. The predicted life of the item in years.
d. The predicted cost of renewing that item.
e. The predicted residual value of the old item.
f. The calculated cost to renew the item, (d-e)
g. The average annual cost of replacing the item (f/c)
h. For each year in c the amount earmarked that year and
i. The cumulative amount so far earmarked.

The predictions made above must be regularly reviewed and changes made as necessary (it would not be wise to rely on a prediction made a number of years earlier). It is possible that the replacement cost of an item will rise during the life of that item and the replacement amounts earmarked in earlier years may be found to be inadequate. However, unfortunate that may be, it is better to recognise that higher replacement amounts are required earlier rather than later.

A paper trail will be maintained for every Earmarked Reserve item so the facts behind every decision taken for that item will be available.

5. Uncertain Estimates.

During the budget setting process, it is possible to predict the likely cost of some items with a high degree of accuracy. However, other costs are not as easy to predict, for example the cost of vehicle repairs. In these cases, it is usual to set an average figure in the budget. When the next budget is being prepared there will still be uncertainty as to whether or not these "average figures" will be spent before the year end. Any money not spent will remain in the Community Council accounts and the balance may rise. Alternatively, if generally the actual cost of items exceeds the budgeted amounts then balances could fall.

6. Ensuring Stable Balances.

These uncertainties can only be corrected during the budget setting process which normally takes place between November and January, but as already stated the necessary information is not available at that time.

To ensure stable balances we must go back a year, to the last budget which has been completed, budget A in the table in section 2. The Budget Process.

The opening and closing balances for the Financial Year A will be known during the setting of budget C.

Starting with the opening balance for that year.
Add any Earmarked Reserves added that year.
Deduct any Earmarked Reserves spent that year.
Deduct any amount spent from the reserves that year.
Will give the **expected closing balance** for that year.

If the **actual closing balance** is less than the **expected closing balance, The budget was overspent that year,** which should already be known.

If the **actual closing balance** is more than the **expected closing balance, The budget was underspent that year,** which again should already be known.

The process for setting budget C needs to start with this assessment and the Council must decide if adjustments must be made to increase or decrease the amount in the balances. If the reserves are approaching either of the limits mentioned in section 3 then action is required.

The trend of the balances over recent years needs to be considered. If they are falling, should we be adding to them, if they are rising are we able to spend more than we request in our precept.