



# **Powys County Council's Medium Term Financial Strategy 2019 to 2024**



Yn agored a blaengar - Open and enterprising

## Foreword by the Leader

This Medium Term Financial Strategy (MTFS) has been produced at a challenging time against the backdrop of continuing reductions in grant income from Welsh Government.

Whilst an increase in the funding to Wales from central government has meant that we have received an improved settlement for 2019/20 from that originally projected, it is, however, still a reduction in the level of funding for services. This has created financial pressure particularly when our costs and investment requirements continue to rise.

The challenge of delivering services in rural areas has long been recognised in our County and I am pleased to say that this challenge is now acknowledged at a national level when the previous financial year saw the full implementation of the population sparsity allowance within the Social Services allocation of the funding formula. It's well known that this did not provide 'extra' funding but did see Powys removed from the need for 'Top Up' funding provided in previous years.

Even so, we continue to be affected by population changes and other factors that impact on the amount of money we receive to deliver services. Powys is again at the bottom of the funding table along with 5 other authorities.

The 2019/20 budget saw a significant level of budget reductions but the Cabinet has attempted to avoid reductions in front line services and the clear priority is to improve the provision of Social Services within our County. In 2018/19 we changed our budget plan at a late stage to include over £12m of investment that demonstrated our commitment to safeguarding children and vulnerable adults in Powys. This commitment remains and the 2019/20 budget takes out the need for Children's Services to make a £2.2m saving whilst confirming last year's significant addition remains in the base budget.

We have also continued to support investment in education at a time of reducing funding with a further £1m provided to schools. Over three years this means that an additional £1m has been provided each year.

The combination of these factors mean we face one of the most challenging periods in the history of Powys County Council. We must transform the way that we provide services using our 2025 programme as the basis for that change.

This revised MTFS continues to see closer alignment between the policy framework and the way we plan to use our finances. This is supported by a new approach to allocating our resources which ensures that our limited resources are prioritised on securing outcomes that matter to our residents. Our vision is a Council that is both open and enterprising. We want communities to feel supported so that they have a say in what is provided for them locally and the way those services are delivered.

We acknowledge that we need to increase the pace of change to meet the challenges we face and the new cabinet will bring fresh challenge, new ideas and new thinking that is flexible, innovative and designed to set the authority on course for a strong and

vibrant future. This approach along with a Corporate Improvement Plan provides the framework to deliver services over the medium term.

We note and welcome Welsh Government's commitment to seek greater collaboration across local government boundaries rather than changing local government structures. We were already fortunate to have a unique position in Wales with the same boundary as our single Local Health Board. The future will see integrated working develop further as we deliver the services that the people of Powys expect and deserve.

The Cabinet has a bold and ambitious programme to see Powys play a significant role in the region's economy and the close collaboration with Ceredigion continues in order to gain a growth deal that will have a greater significance beyond the economic agenda. It is essential that we see Powys retain its young people in new and innovative employment sectors whilst recognising that our traditional sectors of agriculture and tourism will also expand and flourish. There is a close link to our funding settlement because if we can increase employment and the numbers living in our county we will see more funding to deliver key services. This will help secure the County as place that provides the right environment for communities and business to thrive.



**Rosemarie Harris**  
**Leader of Powys County Council**

## **Introduction**

This document is the financial strategy for Powys County Council for the period 2019 to 2024. It has been developed as part of the overall strategic planning process alongside the 2025 Vision and Corporate Improvement Plan which captures the financial, regulatory and policy drivers affecting the council and sets the direction and approach. It also incorporates the plan for delivering a balanced budget for 2020/21, and indicative budgets for the following 4 years to March 2024. This means the Council has an ongoing financial plan to enable service transformation within the funding levels available.

This financial strategy includes all Council services activity funded by the revenue budget, the Housing Revenue Account and the Capital programme. This information is presented in a 5-year budget model and a 5-year Capital Strategy Programme.

The model sets out how a balanced budget will be developed for 2020/21.

The model identifies the estimated requirement for further savings of £67m over the five-year period of this strategy. Given that local government does not have funding data from Welsh Government beyond 2019/20, this assessment is based on indicative figures focusing on how Local Government Settlements in Wales may be affected by central government's finances in the future. It is therefore based on best available information. However, forecasting for future years is difficult to predict with any great certainty and is subject to multiple internal and external influences. Even so, it is highly likely the reducing funding for Powys will continue because of population changes and the continuing reductions in national funding. The funding for local government is finite and largely distributed based on population factors and this remains our greatest challenge when compared with other parts of Wales that see an increase in population.

## **Strategic Context**

The Chancellor had signalled an end to austerity but the Council's budget settlement will continue to be affected by the UK Government's measures to prioritize levels of public spending. Welsh Government's policy of prioritization on the Health Service will also impact adversely on local government funding.

The budget process both at a national and local level continues to be undertaken against an uncertain backdrop, both in terms of the fiscal outlook and in terms of the impact of leaving the European Union.

The Office for Budget Responsibility (OBR) reported in March 2019 that economic growth in the UK and globally had slowed since the Budget in October, leading them to revise down their near-term GDP forecast. But tax receipts have performed better than expected in the final months of 2018-19, and this together with downward pressure on debt interest spending from lower market interest rates, delivers a modest medium-term improvement in the public finances. The Chancellor has banked most of it in lower borrowing, but has spent some on higher planned public services spending. Of the six forecasts they have produced since the EU referendum, four have shown an improved outlook for the public finances and two have shown a deterioration – but each one has been accompanied by some fiscal giveaway.

Taking both forecast and policy decisions into account, the OBR now expect the budget deficit to drop from £22.8 billion this year to £13.5 billion in 2023-24. The Government is aiming to balance the budget by 2025-26, although the Chancellor has said that this objective could be revisited. Past forecast performance suggests that there is a 40 per cent chance of balancing the budget by 2023-24, although the ageing population is likely to put greater upward pressure on spending in subsequent years than it has done recently.

The economic implications of Brexit are an unknown in forecasts. The OBR has stated that the long-term impact on the UK economy will depend on the agreement that is reached with the European Union (EU.) OBR will adjust their assumptions, as necessary, for the eventual agreements on trade, migration, budget contributions and other issues. The forecast assumes a relatively smooth exit from the EU. A disorderly one could have severe short-term implications for the economy, the exchange rate, asset prices and the public finances. The scale is very hard to predict, given the lack of precedent.

The Chancellor had been expected to undertake a Comprehensive Spending Review (CSR) in 2019 to set the tone for post-Brexit Government Spending. However, with the timescale for Brexit extended until 31 October 2019 the UK Government have confirmed that it intends to conduct a 'fast-tracked' one-year spending round to complete in September, with a multi year Spending Review to be carried out in 2020.

It is not yet known how this will impact on the Welsh Governments budget timetable.

In January 2018, local authorities were facing a 1% reduction in the Revenue Support Grant (RSG) for 2019-20 – this was equivalent to a cash reduction of £43m. The draft Budget 2019-20 reduced that cut in funding in the RSG to less than £15m (equivalent to a reduction of 0.3% in the RSG). Welsh Government put in place a floor to ensure no authority would face a reduction in funding of more than 1% over the previous year. The draft Budget also provided £84m of additional revenue in special grants and other funding streams for local government outside the RSG.

In November, Welsh Government announced a package of additional funding proposals worth a total of £141.5m over three years (2018-21) for local government.

Wales Fiscal Analysis briefing note reports that Welsh Government day-to-day spending will increase by over 2%, in real terms, in 2019-20 - by far the largest increase since before the start of austerity measures in 2010-11. However, it will still be around 5% lower in real terms than in 2010-11.

On the capital side of the budget, the majority of consequentials for capital spending from the Autumn Budget was for the 2018-19 financial year, though the capital block grant for 2019-20 has increased by around £10.6 million. The Welsh Government has also allocated a further £27.5 million from its unallocated capital finance, the majority of which will go to local authorities' general capital fund.

Local government and the wider public sector has, and must continue, to realign itself to the fiscal reality it faces and manage its spending within the available funding.

Powys has already made significant reductions in its expenditure with savings in excess of £100 million over the last decade as a response to reduced government funding and the requirement to cover additional spending demands.

The local context affecting our funding and demand for services is well recognised and heavily influenced by Powys being sparsely populated with a wide geographic area requiring services. Powys has a higher than average elderly population that is predicted to increase at a rate that is significantly greater than the national average. This statistic can largely be attributed to people living longer as a result of better healthcare and improved lifestyles together with an inward migration of people above retirement age to the County. Conversely, the county's younger population is declining with a reducing birth rate and a sizeable outward migration of young people. Further educational and career opportunities are the main contributors to this trend.

These factors in combination are presenting significant challenges. The provision of services to a dispersed and relatively small population is expensive as a result of greater transport costs and the demand for facilities to be delivered locally or within a commutable distance. Additionally, a consequence of an ageing population is the increased demand for more complex, and therefore more expensive, care support.

We welcomed the recognition in the funding settlement that rural authorities incur additional costs to deliver services such as social services and are pleased to see the inclusion of adjustments to the formula through the implementation of the Social Services sparsity allowance. The phasing of this change now sees Powys excluded from the top-up protection it received previously so the actual effect of the change is nil.

The work undertaken by the Local Government and Welsh Government Joint Distribution Sub Group has been vital in bringing these issues to the fore. This is only the start and we would welcome further work on the grant funding formula looking at other costs such as Public, Home to School and Special Education Transport all of which are significant cost pressures for rural authorities.

In order to deliver a balanced budget over the medium term, a transformational approach is required, and which will need to be delivered at pace. This will require some radical thinking, drawing on experience of other authorities and learning from others. We will have to reconsider the discretionary services we provide and review the levels of service we can afford to deliver for our statutory services.

On the current modelling, reductions are required in spending of over £13m in 2020/2021 with a further £44m over the following 3 years. This will be achieved through transformational change and cost efficiencies but reductions in some services offered will also be inevitable.

We clearly recognise that we can no longer afford to maintain the Council in its current form. The status quo is not sustainable and a different operating model will be required.

## **Vision 2025 – Our Corporate Improvement Plan 2018 - 2023**

The 2017 local government elections saw a new cabinet and new vision in place. Vision 2025 represents the new administration's long term vision for the council and its priorities are clearly laid out, these are:

- **The Economy** - We will develop a vibrant economy
- **Health and Care** - We will lead the way in providing effective, integrated health and care in a rural environment
- **Learning and Skills** - We will strengthen learning and skills
- **Residents and Communities** - We will support our residents and communities

To help us deliver the above outward facing priorities, we also have an internal facing priority called Making it Happen, which focusses on improving communication and engagement, leadership and governance and changing how we work.

The Corporate Improvement Plan is our road map to achieve the Vision 2025, setting out our top priorities and milestones. It draws together information from a number of our key strategies, the steps we will take to meet our priorities and the improvements you can expect to see when our plan is delivered.

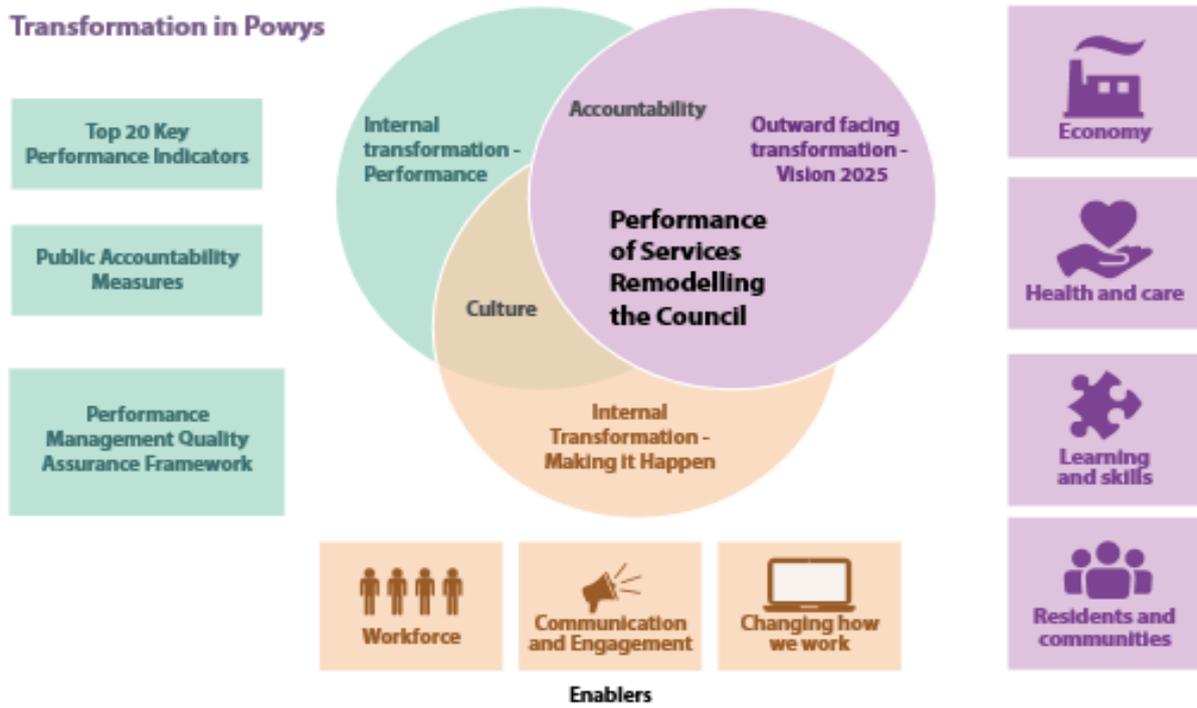
It provides an important framework for engaging residents, councillors, staff and other stakeholders, such as regulators, in the vision and the council's priorities.

During 2018, we redefined our approach to delivering Vision 2025 to ensure improved accountability and a greater focus on outcomes. This includes:

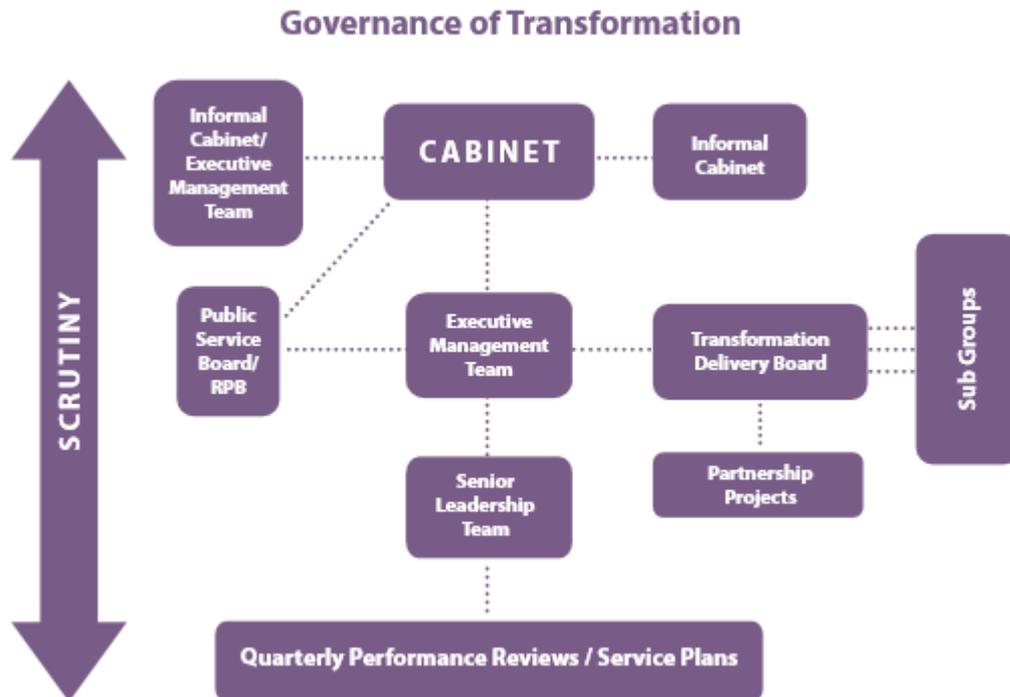
- Adopting a new strategic approach to council performance
- Changing the organisation culture and promoting positive behaviour
- Internal transformation and remodelling the council

**The new approach to organisational transformation includes:**

**Transformation in Powys**

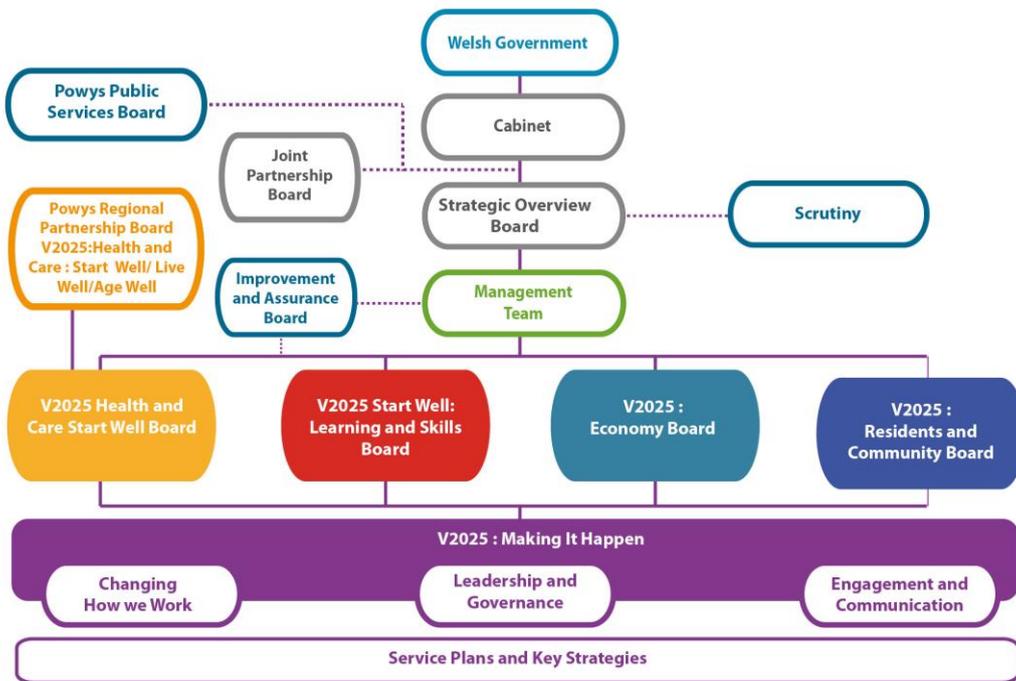
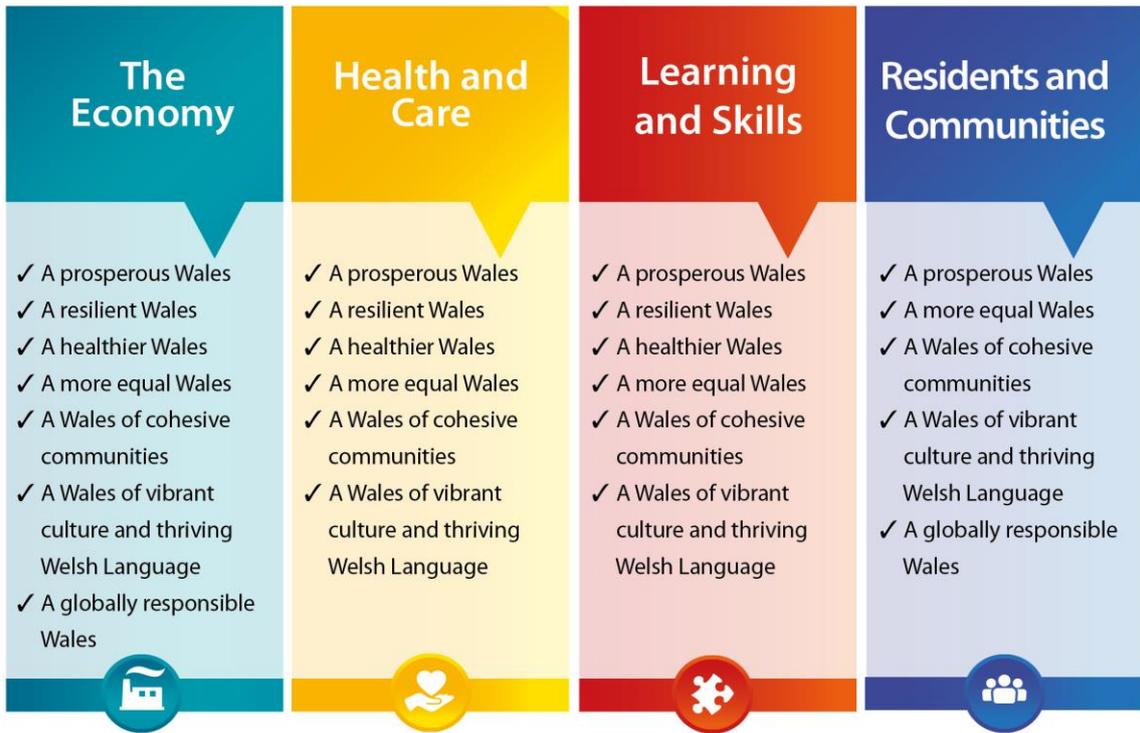


Governance of Vision 2025 has also been streamlined. There is now one Transformation Programme that will focus purely on significant transformational projects that need to be delivered by more than one service. There will still be lots of service improvement work that will help us deliver Vision 2025, but this will be managed and governed separately at a service level.



Our Corporate Improvement Plan shows our contribution to the strategies that we are working on with our partners. These include the Powys Public Services Board Towards 2040, and the Powys Regional Partnership Board Joint Area Plan.

The plan also shows how we are contributing to the aspirations of the Well-being of Future Generations (Wales) Act 2015. The Act puts in place seven well-being goals to ensure public bodies in Wales are working towards improving the social, economic, environmental and cultural well-being of their areas. Each of our priorities contributes to one or more of the well-being goals that will help us improve Powys now and over the long term:



In an era of continued budgetary pressures, growing demand and increased expectations, it is very important that we are clear about what we want to achieve now, and in the future and support this within our financial planning.

## **Financial Planning and Budgeting**

The Council’s budget planning has traditionally been based on incremental budgeting focusing on one year with limited development over the longer term, we recognise that this approach is no longer effective to create a Council that is financially resilient for the short, medium and longer term. The diagram below defines the steps in developing the Financial Strategy.

### Developing the Financial Strategy

An effective financial strategy links the Councils long term service objectives and its financial capacity. It ensures that we can achieve our strategic objectives within the confines of the financial resources.



Building on the improvements we have already made, a new strategic approach to allocating resources has been developed. This approach will bring together all elements of the Council into one overarching financial strategy, which delivers Vision 2025, a programme of transformation, and which encompasses service improvement and delivers appropriate levels of statutory service. It will better align revenue and capital to ensure that our limited resources are prioritised to achieve maximum effectiveness and based on securing outcomes that matter to our residents.

The strategy is supported by a detailed 5 year budget model, this has been strengthened in recent years with the development of service financial models which inform the corporate plan. The budget model has been improved with scenario planning across Best, Most Likely and Worse case scenarios. Funding, Pay and Price pressures and changes in service demand have been modelled on this basis and the budget gap identified for each year of the plan. This provides the basis for the allocation of funding to each service.

A new Integrated Business Plan for each service is currently being completed, which builds on the previous service improvement plan, and now captures all the objectives of the service. This plan captures the service's vision and highlights its key roles and responsibilities in supporting the Councils Vision 2025 Corporate Improvement Plan Outcomes, along with the intended outcomes for service users and / or residents.

Service Evaluation is key to the process, performance, cost analysis, benchmarking, regulatory recommendations, proposals for improvement and Service User / Resident Feedback all feature. The objectives for the services which align to the 5 ways of working and the 7 Well-being goals of The Well-being of Future Generations (Wales) Act 2015) and meet statutory requirements and legislative changes are defined.

In finding sustainable solutions for service delivery objectives should broadly align to any 1 of the following requirements:

- Objectives to redesign services to deliver them more efficiently, effectively or in an alternative manner.
- Objectives that identify key delivery partnerships or outsourcing opportunities
- Objectives that realise opportunities to stop delivering services because requirements or priorities have changed, allowing the planned release of resources.
- Objectives that realise opportunities to generate additional income.

Workforce implications are identified and inform the council's workforce development and training needs. Risks and impact are assessed and defined.

The service area budget is developed based on the allocation of resource to deliver each of the objectives. These individual Integrated Business Plans form the overarching Plan and budget for the Council.

### **Funding Assumptions**

The Welsh Government provides funding to the Council in the form of a Revenue Settlement Grant (RSG) and a share of the National Non Domestic Rates Pool (NNDR). Together they constitute the Council's Aggregate External Finance (AEF), which represents approximately 70% of our funding.

The Aggregate External Finance (AEF) figure for 2019/20 was £174.291m, which was a 0.3% or £0.524m reduction in grant after adjusting for transfers. The impact upon Local Government in Wales as a whole was an average increase in funding of 0.2%. This means that Powys has £1,323 of funding per capita, compared to the Wales average of £1,352 and the year on year change ranks 12th out of all the Unitary Authorities.

Powys collects NNDR (more commonly known as Business Rates) from businesses within the county. These funds are pooled at a national level and redistributed to Councils via a formula. Powys receives over £13m more than it collects.

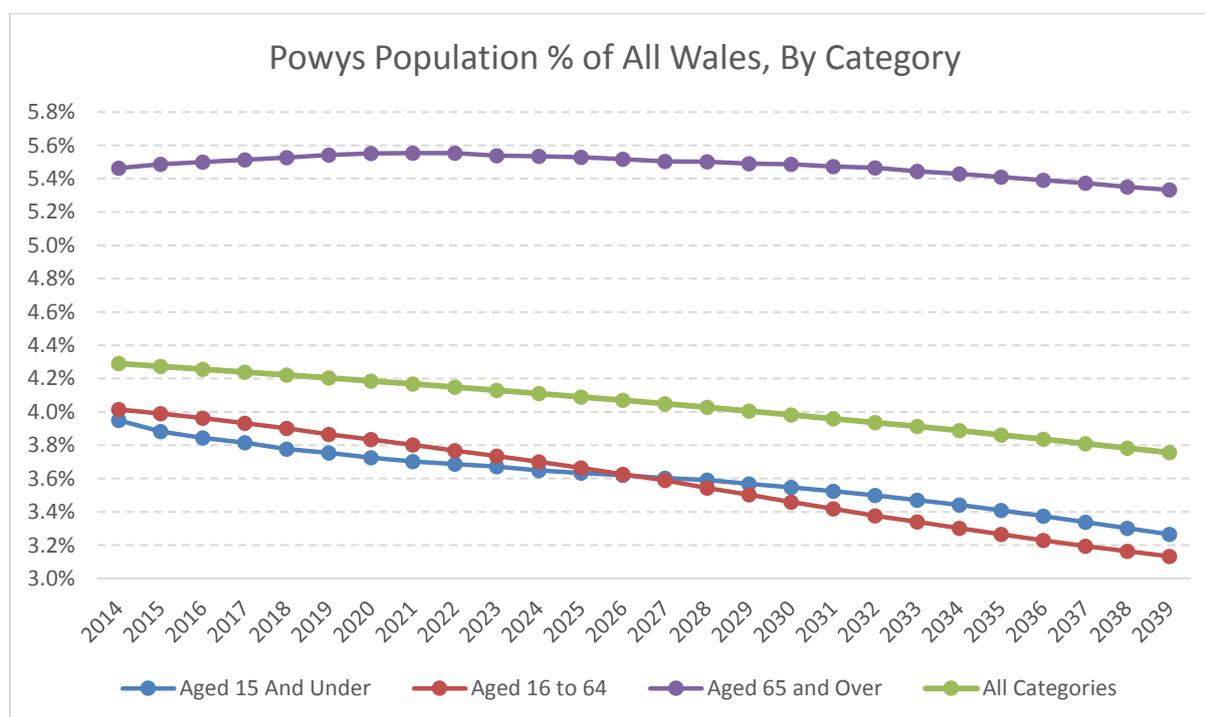
Powys' Settlement also reflects movements in the factors included in the overall formula like population projections, pupil numbers and benefit claimant counts. The key indicators are shown in the table below.

### Changes in Key Datasets

Dataset*	2018-19 Final	2019-20 Final	% Difference	Rank
Population projections	131,922	131,721	-0.2%	22
Pupil Numbers - Nursery and Primary	9,840	9,755	-0.9%	21
Pupil Numbers - Secondary in year groups 7-11	6,315	6,297	-0.3%	18
Free School Meals - Primary	1,065	1,034	-2.9%	20
Free School Meals - Secondary	640	637	-0.5%	15
Children in out of work families	3,000	2,900	-3.3%	15
IS/ JSA/ PC/UC (not in employment) claimants - 18 to 64	1,886	1,605	-14.9%	22
IS/ JSA/ PC claimants - 65+	4,684	4,466	-4.7%	8
IS/ JSA/ PC/UC (not in employment) claimants - all ages	6,584	6,084	-7.6%	11
SDA/DLA/PIP claimants - 18 to 64	4,538	4,544	0.1%	4

1. For definitions of the indicators refer to the Local Government Settlement 2019-20 - Local Government Finance (Councils) Report.

The total number of people living in Powys is declining which impacts on the amount of funding we receive. This is further compounded as population in other Authorities and across Wales is rising leading to further impacts for Powys on the distribution of funding. This trend is set to continue and is reflected in the funding assumptions we make.



The number of pupils in Nursery and Primary Schools in Powys have reduced. Pupil numbers reduced by 85. The number of pupils in Secondary Schools in Powys has reduced by 18.

Powys has seen a continued decline in pupil numbers over the last ten years and although numbers are stabilising, they are not projected to recover to their former levels. Even if maintained at their current levels, the increase in numbers elsewhere in Wales will potentially mean we have less funding in our future settlements.

Free School Meals in Powys have decreased in both Primary and Secondary sectors, by 2.9% and 0.5% respectively.

Welsh Government has not provided any settlement figures for future years. The table below models the percentage change in Aggregate External Finance (AEF) if a reduction were applied. A 1% reduction equates to £1.74m.

<b>% Change in AEF</b>	<b>Cash Impact (£m)</b>
0.5%	£0.9m
1.0%	£1.7m
1.5%	£2.6m
2.0%	£3.5m
2.5%	£4.4m
3.0%	£5.2m
3.5%	£6.1m
4.0%	£7.0m

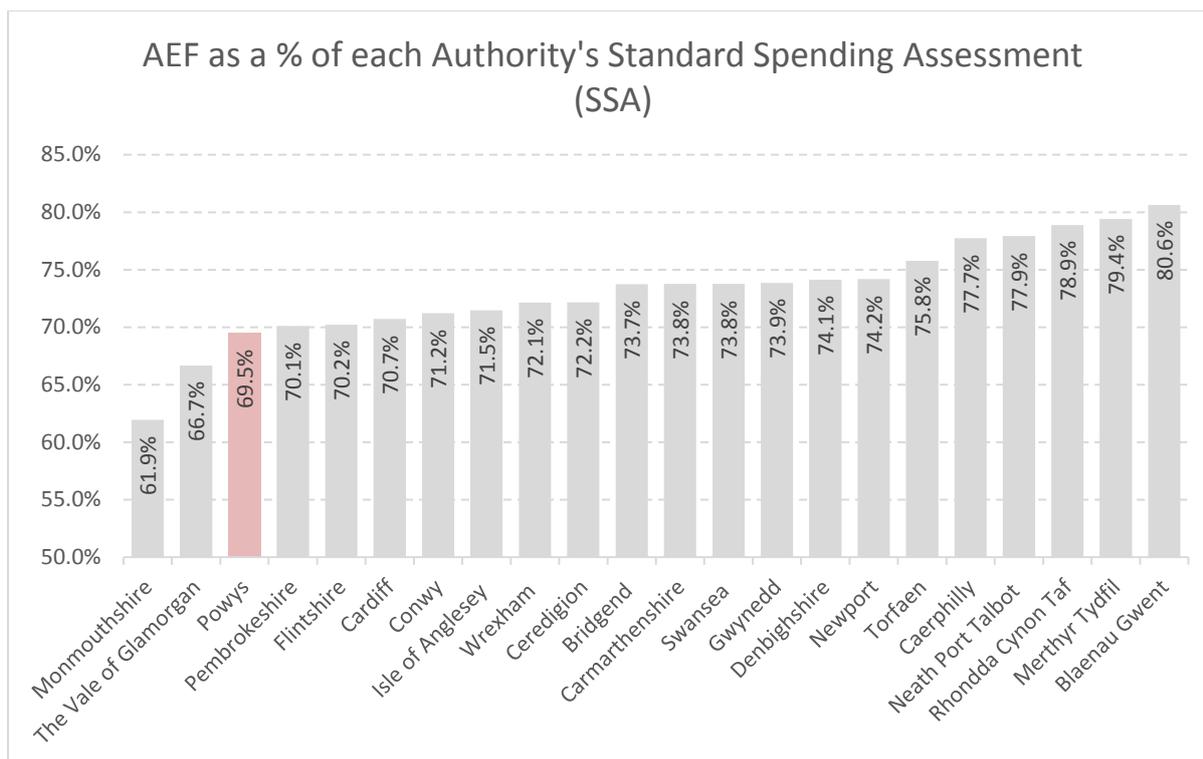
Due to the amount of funding delivered to the Council in this way, any change can be significant and in order to plan over a 5-year period we have assumed that funding will continue to fall at 2% per annum; a reduction of over £13.5m by 2023/2024.

### **Specific Grants**

In addition to the AEF, Councils also receive specific grants which are accompanied by specific terms and conditions as to how they can be used. We receive around £60m of grant funding each year. These grants have also declined in recent years and where a grant has been reduced or withdrawn, the Council's policy is that the service funded by the grant also reduces or ceases.

### **Council Tax**

Council Tax represents around 30% of the Council's Net revenue budget. Powys' Council Tax contribution is greater than other Authorities. Most other authorities collect less because they have a greater share of the RSG. The below graph shows the percentage of each Local Authority's Standard Spending Assessment covered by central funding (AEF).



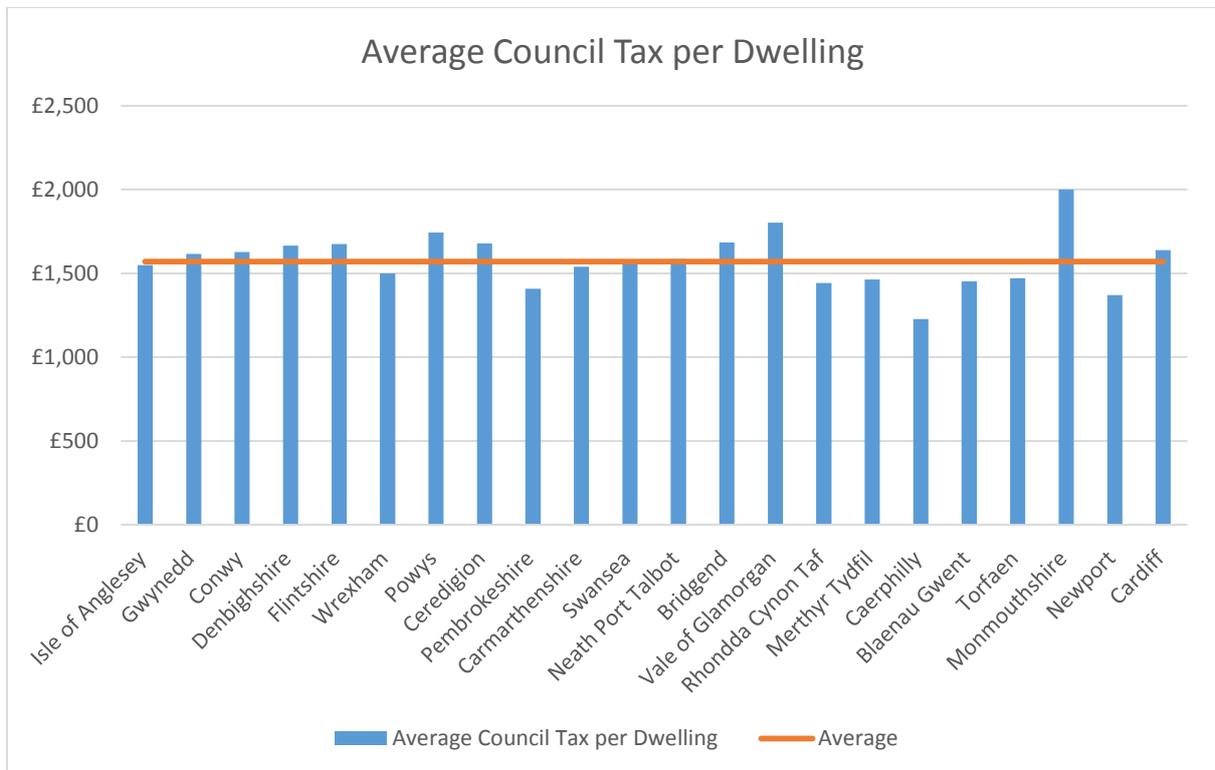
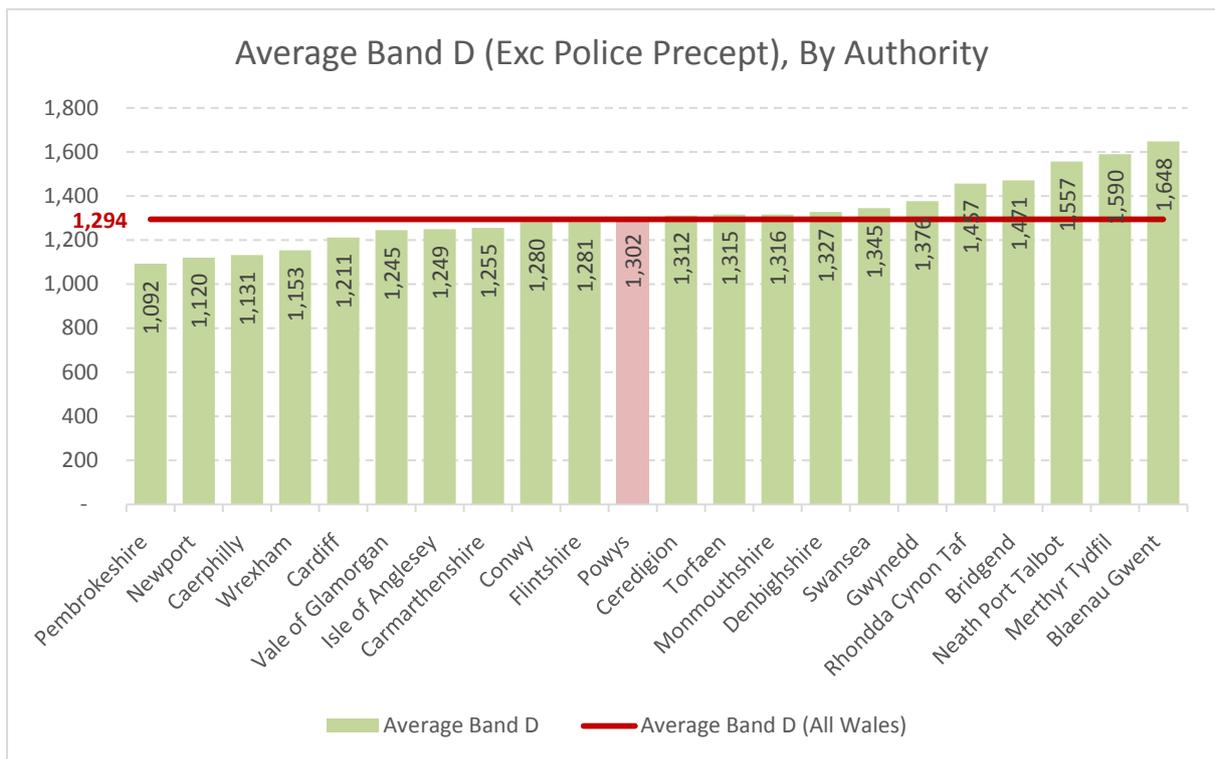
In our financial model (FRM), we are proposing an increase in Council Tax each year of 5% for future years.

The total Council Tax households will have to pay will be affected by decisions from public bodies, including Community Councils and the Police Authority.

The following table indicates the additional permanent funding for 2020/21 that Council Tax increases ranging from 1% to 10% would produce:

<b>Council Tax % Change</b>	<b>Cash Impact (£m)</b>
1.0%	£0.81m
2.5%	£2.02m
5.0%	£4.04m
7.5%	£6.07m
10.0%	£8.09m

A balance needs to be struck between the ability to raise enough money to fund important services to the right level and the impact increasing taxation has on the residents of the County. For 2019/20, the average annual Council tax bill for a Band D property in Powys was £1,302. This was broadly in line with the Wales average for Band D properties of £1,294. The table below shows this for each of the local authorities in Wales. The average Council Tax per dwelling in Powys is the 3rd highest in Wales in 2019/20. This is particularly sensitive in a county with one of the lowest average wage levels in Wales.



Council Tax collection rate for 2018/19 was 97.3% which was also the average for all unitary authorities in Wales. The highest collection rate in Wales for 2018/19 was 98.2%.

The introduction of Council Tax premiums, on 1st April 2017, and the roll-out of Welfare Reform, including universal credit in Powys, in October 2018, was predicted to have an impact on in-year collection and arrears, estimated at between 0.2% to 0.3% drop on in-year collection. Comparing in-year collection rates, 2016/17 (97.6%) to 2017/18 (97.5%), saw a reduction of 0.1% - less than predicted.

## **Revenue Budget**

Our revenue budget indicates what we will spend on day to day services. It includes the cost of salaries for staff employed by the Council, contracts for services procured by the Council, other goods and services consumed by the Council and the cost of financing borrowing to support the capital programme. Our revenue spending priorities are determined according to the Council's statutory responsibilities and local priorities as set out in our corporate plan (Vision 2025).

Reductions in funding and increasing cost pressures place significant pressure on service delivery. Over the last decade we have made savings of approximately £100m. Our financial strategy must identify and calculate the impact of pay, price and inflationary increases, changes in demand for service provision, changes in statutory and legislative obligations, and the funding of our local priorities.

Each Services Integrated Business Plan will inform the overall Councils Budget Plan, these will define all the objectives of the service. The plans captures the service's vision and highlights its key roles and responsibilities in supporting the Councils Vision 2025 Corporate Improvement Plan Outcomes, and statutory responsibilities along with the intended outcomes for service users and / or residents.

In addition, the Programmes to deliver the Vision 2025 will be developed and monitored through the Council's Transformation Delivery Board for inclusion in the annual budget cycle and 5-year plan.

It is expected that the 2025 Vision will be delivered within the existing Revenue Budget. Some investment may be required to support capital expenditure or transformational activity and funding identified to support our plans will be allocated on the basis of sound business cases.

A number of overarching assumptions are included in our planning, a summary of which together with a sensitivity analysis of the projections are as follows:-

Driver	Comments	Sensitivity: +/- 1% (£m)	Best	Most Likely	Worst
Revenue Support Grant & Non-Domestic Rates Funding	Welsh Government have indicated an average 1% reduction in funding for 2020/21; in addition data changes impact adversely on Powys' funding, therefore we assume a higher level of reduction	£1.74m	-	(1.0%)	(2.0%)
Council Tax	Cabinet have set the current assumption at 5% increase per annum	£0.81m	5.0%	5.0%	5.0%
Council Tax Reduction Scheme	As Council Tax rates increase the cost of the Council Tax reduction scheme will also increase	£0.09m	£0.45m	£0.45m	£0.45m
External Grants	Approximately £70m of external revenue grants expected in 2019/20	£0.70m	-	-	-
Pay Awards: General	Includes NI & Pensions; excludes Schools Delegated	£0.93m	2.00%	2.00%	2.00%
Other Inflation/ Price Pressures		£0.17m	1.50%	2.00%	2.50%
Pension Fund Contributions	Based on the latest actuarial review an additional £750k has been included in the FRM every year throughout the planning horizon		£0.75m	£0.75m	£0.75m

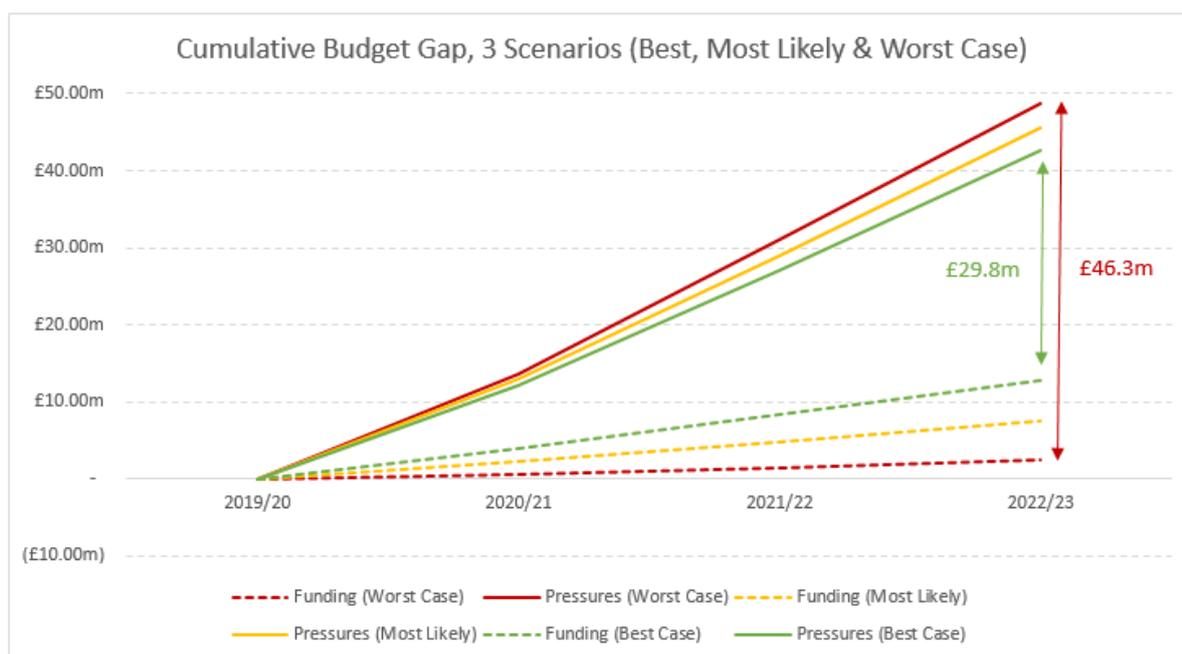
We set our budget within a statutory framework under the Local Government Act 2003 that requires a balanced budget for the forthcoming financial year. There is no requirement to set out a balanced position beyond the next year but the five-year strategy has been developed to enable longer term planning and transformation.

The Medium Term Financial Strategy:

- Identifies the cost of implementing our Vision;
- sets out future funding levels from Welsh Government;
- considers the level of Council Tax to be raised;
- identifies and estimates the cost pressures facing the Council;
- sets out the policy on Reserves;
- identifies the gap between our funding and expenditure.

### **How we will balance the budget**

In order to deliver an ongoing balanced budget, the gap in our financial planning must be closed. Due to the uncertainty of the funding we will receive from Welsh Government we have modelled Best Case, Most Likely and Worst Case scenarios, these capture different levels of funding, Inflation and provision for Service Pressures.



Scenario	2019/20	2020/21	2021/22	2022/23	Cumulative
Best	-	£8.0m	£10.8m	£11.0m	£29.8m
Most Likely	-	£10.7m	£13.5m	£13.7m	£37.9m
Worst	-	£13.2m	£16.5m	£16.6m	£46.3m

Current modelling is as follows:-

	2020/21	2021/22	2022/23	2023/24	2024/25
Council Tax Increase	5.0%	5.0%	5.0%	5.0%	5.0%
Funding Change	(2.0%)	(2.0%)	(2.0%)	(2.0%)	(2.0%)
<b>Total Funding</b>	<b>£255.75m</b>	<b>£256.58m</b>	<b>£257.69m</b>	<b>£259.09m</b>	<b>£260.79m</b>
<b>Net Budget c/f</b>	<b>£255.19m</b>	<b>£255.75m</b>	<b>£256.58m</b>	<b>£257.69m</b>	<b>£259.09m</b>
Inflation	£3.85m	£3.93m	£4.02m	£4.09m	£4.14m
New Responsibilities	£1.25m	£1.25m	£1.25m	£0.50m	£0.50m
Service Pressures					
- Childrens	-	-	-	-	-
- Adults	£2.91m	£2.91m	£1.50m	£1.50m	£1.50m
- Highways Transport and Recycling	£0.42m	£0.43m	£0.44m	£0.45m	£0.45m
- Property, Planning and Public Protection	£0.03m	£0.03m	£0.03m	£0.03m	£0.03m
- Regeneration	-	-	-	-	-
- Housing General Fund	£0.01m	£0.01m	£0.01m	£0.01m	£0.01m
- Schools	£0.20m	£0.20m	£0.20m	£0.21m	-
- Schools Delegated	(£0.23m)	(£0.03m)	(£0.15m)	-	-
- Corporate	£4.49m	£5.00m	£5.00m	£5.00m	£5.00m
- Insurance	£0.80m	-	-	-	-
Capital Financing Costs	-	£1.09m	£2.96m	£0.81m	-
Reserves	-	-	-	-	-
One-Off Funding	-	£2.51m	£2.49m	-	-
<b>Total Budget</b>	<b>£268.91m</b>	<b>£273.07m</b>	<b>£274.32m</b>	<b>£270.29m</b>	<b>£270.72m</b>
<b>Budget Gap - In Year</b>	<b>(£13.16m)</b>	<b>(£16.50m)</b>	<b>(£16.63m)</b>	<b>(£11.20m)</b>	<b>(£9.93m)</b>

The following strategies will be developed to close the gap:-

- The transformation of service provision;
- improved efficiency and a “Right First Time” ethos;
- identification of investment opportunities and income;
- Capital Programme – reviewed, opportunity to invest;
- Cross Cutting Themes;
- commerciality/income generation/fees and charges;
- reconsider the levels of Council Tax increase;
- some service reductions – ceasing or reductions to levels of service;
- the use of the Spend to Save reserve to support transformation;
- the raising of capital receipts to support transformation.

### **Council Wide Operating Principles for Transformation**

- Moving from an organisational focus (supporting our own internal requirements and functional silo’s) to a focus that looks to meet our residents and communities’ needs;
- Management ethos focuses on improving the outcomes for residents and communities by removing barriers.
- Moving from functional silos to services that effectively meets our residents and communities’ demand.
- Decision making is based on a clear set of principles, experience, knowledge, robust evidence and is taken as close to the frontline as possible.
- Continuous improvement informed by timely data which will measure how well we are delivering outcomes for residents and communities.
- Accountable for activities and accepting responsibility, resulting in transparent delivery of effective outcomes.
- We challenge everything we do, and will realise the right outcomes using our transformation methodology.
- Partnerships are outcome focused, based on collaboration and strong relationships (working together, stronger together).

The transformation of services will require investment to implement. This is supported within our financial planning by using capital receipts to capitalise appropriate costs under the Welsh Government Capitalisation Directive. We will also bid for additional resources from Welsh Government to support our programme.

### **Budget Principles**

The approach to budget setting is underpinned by the following Budget Principles approved by Cabinet:-

- a. Flexible, Remote and Mobile working  
This is already underway and should be aligned to downsizing corporate offices and increasing productivity. There is considerable cost tied up in the corporate estate and a savings target for accommodation savings will be explored. This must be based on a new approach to working arrangements.

- b. Improving Collaboration  
The Welsh Government's policies on local government collaboration mean we will seek partnering arrangements as further detail emerges. There may be scope to explore the various collaborative models including partnerships and shared services. We already collaborate but more can be done and the Local Health Board is a key partner under this theme.
- c. Customer Insight  
The Business Intelligence function has made progress since its creation. However, we are still richer in data than information. Improved decision making and performance through better customer insight may be an area where financial gains can be made.
- d. Business Process Improvements  
There is already good evidence that progress has been made in this area. However, this is patchy and the organisation needs to fully embrace business process improvement techniques. Technology can assist this area and the introduction of a new finance system will be a key element as well as integrating systems to make processes more efficient. Investment here can bring significant savings which may not impact directly on front-line service delivery and therefore should be politically easier to deliver.
- e. Productivity  
Access to information, better techniques and relevant training can increase productivity and more responsive services (this should be linked to business process improvements outlined above). The Roots programme can be a key foundation for improving productivity. Areas such as customer relationship management, workflow and case management can also be looked at under this theme.
- f. Flexibility  
It may be appropriate to support the workforce in work/life balance issues whilst remaining within Local Government terms and conditions. Some councils have offered the workforce the options of a more flexible approach to leave arrangements that sees staff `buy` additional holiday by being able to take unpaid leave to external holidays. Clearly this would need to be carefully managed but has the benefit of avoiding reducing workforce numbers as a result of change.
- g. Commercialisation.  
A more commercial approach is already evident with contracts being won, and services provided, to other public organisations. This can be a key part meeting the 2019/20 requirement and may require an exploration of the model in order to remain compliant with local government legislation. There is great scope to increase the income flows to the Council. In addition to business services, there is potential for a range of services such as catering, cleaning and vehicle/plant maintenance to trade. The services will need to be run on a commercial basis and will have to compete locally as well as nationally. Property is another area

where we can increase income from taking a more speculative approach to acquisitions, leases and development.

### **Income, Fees and Charges**

Income generated through fees and charges plays an important part of our financial strategy. The Council raises approximately £60m of income annually. An **Income Policy** is in place together with a Fees and Charges register. It is important that fees are reviewed at least annually as part of the budget setting process and reviewed during the year, in line with the Council's income policy. This will ensure existing targets are being met, additional costs are being recovered through charging, and any further income potential is explored to maximise the Council's resources.

Improving income management and service cost recovery has a key role to play in enabling the Council to achieve its financial and wider strategic objectives.

### **The Wellbeing and Future Generation Act – Assessing the impact of our decisions**

The Wellbeing and Future Generation Act enshrines in legislation sound principles that mean the impact of decisions should be considered over a wide range of stakeholders over a longer period. The Council has a thorough impact assessment process in place to ensure that all decisions are properly considered. All budget decisions will continue to be assessed rigorously to ensure that the impact is understood and that prudent and sustainable budgets continue to be set.

### **Capital**

The **Capital Strategy** is fundamental to the effective delivery of the Council priorities and our Vision 2025. It facilitates a seamless interface between business planning within the Council and the management of assets and capital resources. This will ensure that the provision of resources and future investment are prioritised. The provision of the right asset in the right place at the right time will ensure the effective and efficient delivery of a comprehensive range of quality services. It is aligned to the Asset Management Plan and the major investment plan for 21st Century Schools, jointly funded with Welsh Government.

The future capital requirements will align with the revenue budget, ensuring investment is linked to service development and commerciality. Ultimately, our aim is to use fewer resources, including our buildings, but use these far more efficiently.

The Capital Programme, is closely aligned to the Treasury Management Strategy, in terms of identifying and undertaking necessary borrowing and when cash will be paid into the Council's bank to support cashflow.

The Council is required to make an annual charge against its revenue budget for the repayment of its debt liability in respect of capital expenditure funded by borrowing, for both the General Fund and Housing Revenue Account Debt. This is called the Minimum Revenue Provision (MRP). The Council revised the method of calculating MRP to a 2% straight line for the General Fund, for debt going forward.

It has now reviewed the current years MRP liability and will retrospectively make an adjustment that will see the debt liability being repaid eight years earlier, and effectively moves the start point of the 50 years useful asset life back to 2007/08. This means that the debt liability will be reduced to nil in 2057, rather than in 2065. The impact is less MRP on the general fund of over £19m. The MRP policy statement is adopted each year and provides a full picture of the Council's strategy.

A Welsh Government Directive has provided Authorities with the opportunity to utilise capital receipts from the sale of property and other assets to fund transformation costs. Powys has used this opportunity appropriately to capitalise such costs over the last 3 years and will again use this to support transformation costs including staff severance costs for the period of the directive.

A **Capital Receipts Policy** has been developed to support this approach which includes the projected level and use of receipts over the period for which the directive applies. The disposal of surplus property and assets will be assessed on an annual basis and the level of receipt projected and considered within the budget model.

## **Reserves**

The **Reserves Policy** establishes a framework within which decisions are made regarding the level of reserves held by the Council and the purposes for which they will be maintained and used. This is a key component of the MTFS as a sound reserves policy is essential in order to underpin the financial sustainability of the Council. It is for this reason that we have developed our approach to reserves through an effective policy.

The use of reserves and the levels at which they are maintained is determined on an annual basis as part of the Council's budget setting process following a risk based assessment. The approach is supported by the policy around the use of reserves. All reserves are corporate rather than service based.

The Council faces a continuing financial challenge and it is essential that a prudent reserve level is in place to ensure enough financial capacity is available. This cannot be stressed too highly given the level of savings, the risk inherent in the budget and the significant challenge to balance the budget over the medium term.

The level and purpose of holding of reserves is a matter for each authority to determine as part of sound financial management. However, it is useful to compare the reserves held in other Authorities across Wales.



cashflow management, because of the uncertainty about the level of capital spending profile. A return could be achieved if we had confidence in capital obligations alongside corporate changes to creditor payments and debt collection.

The strategy confirms the need to borrow to support the capital programme and continue to be significantly under borrowed. The consequence of which is the reduced cost of borrowing and the revenue budget model and forecast are revised regularly to assist the budgets.

The Council's policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times when the Authority will not be able to avoid new borrowing to finance capital expenditure and/or to refinance maturing debt. Borrowing rates are forecast to increase, and borrowing to cover the future capital programme costs will be considered against the cost of carry.

## **Risks and Risk Management**

At a time when the Council is facing unprecedented challenges, the effective management of risk is needed more than ever. A risk-managed approach to decision making will help us to achieve the objectives of Vision 2025 and deliver services more efficiently, using innovative and cost-effective means.

A ***Risk Management Framework*** is in place to ensure that at all levels of the organisation we are able to identify risks which would prevent us from achieving our objectives (including failing to take advantage of opportunities). There is clear guidance on the terminology associated with risk management and the process itself, along with a set of practical tools and techniques to help us manage risks, deliver objectives, meet targets and maintain resilience.

We must not lose sight of the fact that risk is inextricably linked to opportunities and innovation. The Council cannot be risk adverse, and it needs to take full advantage of opportunities for improving services therefore we need to be proactive in the way that we identify and manage our risk.

Having a better understanding of the importance of, and fully implementing, risk management will make a huge contribution to the Council. Better identification of risks and their management will mean that better use of resources is achieved. If we use the resources available to us more efficiently and effectively then the service to our customers can only be improved.

## **Budget Risks**

### **Change Delivery Capacity**

A number of savings are now categorised as 'transformational'. In other words, a proactive approach to change is required rather than the more traditional percentage budget cut. It is important the Council recognises that, at a time of change, investment may be needed to deliver change. In some cases, specialist skills will be required for short periods.

## Budget Savings

The level of savings required in 2019/20 is significant at £21.7m. Any unforeseen delays in implementation will impact on the achievement of the reductions required. Progress on the delivery of agreed savings targets will be reported to Cabinet on a monthly basis. The reserve position of the Authority is in line with the prudent range of 3 - 5% and these are available to “smooth” any slippage in delivery of the savings. However, the emphasis is placed on ensuring savings are delivered. Plans within service areas need to be managed robustly in order to limit any underachievement and monthly budget monitoring and savings delivery monitoring ensures Cabinet has visibility of financial performance. The table below summarizes the level of savings delivered over the last 5 years.

<b>Financial Year</b>	<b>Target (£000s)</b>	<b>Delivered (£000s)</b>	<b>Delivered %</b>
2014/15	17.6	14.0	80%
2015/16	12.8	9.7	76%
2016/17	12.1	9.6	79%
2017/18	11.8	8.3	71%
2018/19	12.3	6.5	53%

## Income

The budget is supported by approximately £60m of generated income and therefore services need to constantly review their income levels and develop creative plans to ensure that they are sustained. This risk is being mitigated by an overall strategy for income and a move to full cost recovery wherever appropriate.

## Equal Pay

The Council has mitigated the financial risk of potential future equal pay claims by holding a reserve to support these costs. This is kept under review.

## Treasury Management

The revenue budget and capital programme are supported by daily cash movement managed within our borrowing and investment strategies. The financial climate has a significant impact on these activities. We continue to monitor these on a daily basis. Any variation in the cost of borrowing is being mitigated by a proactive approach to refinancing our borrowing wherever possible. This ensures that, wherever possible, our long term borrowing for our capital projects takes advantage of the historically low level of debt interest.

## Variations to Settlement Assumptions

The Council makes every effort to ensure that its assumptions about budget settlements for future years are based upon the best available evidence. However, future settlements cannot be predicted with absolute accuracy and can be influenced by political and economic policy changes.

## Political Approval of Budget

The Council is required under the Local Government Act 2003 to set a balanced budget for the forthcoming financial year, and this must be approved by Full Council.

### Availability of Reserves

The Council may suffer other costs that may arise due to unexpected events such as: -

- Civil emergencies and Natural Disasters
- Failure to deliver statutory duties – failure to deliver, including safeguarding activity in relation to adults, children, health and safety or public health could result in possible negligence claims.
- Increased threat of legal litigation in respect of service delivery standards and regulations and multiple insurance claims. This risk is the likelihood of needing to replenish the insurance fund immediately from reserves as a result of several claims above our excess.
- Increase in energy cost prices.

If the actual position is different to the assumptions made in producing the budget, in-year adjustments would be needed.

### Mitigation, Review and Monitoring

As part of the impact assessment process, the author of the assessment is asked to identify mitigation to any negative impacts that have been identified. The risks and the identified mitigation must be managed within the appropriate project risk register to ensure continual monitoring and management of the risks.

## **Stakeholder Communication & Engagement**

The aim of our Communications and Engagement Strategy is to :-

- Provide clear and honest information about the budget position and future challenges
- To raise awareness of Vision 2025 and engage stakeholders to capture their views, to inform the Cabinet's and Full Council's decision-making process around budget setting
- To engage and consult, taking into account the Equalities Act 2010, and in accordance with the National Principles for Public Engagement in Wales e.g. timely, genuine, due regard etc.

## **Public Communication and Engagement**

Over the past few years the Council has sought to engage residents in the decision making process around setting a balanced budget using an online budget simulator tool. The savings targets subsequently agreed by the Cabinet and ratified by Full Council have then led to service managers needing to develop more detailed

proposals which have, in the main, gone out for public consultation. This has created a further opportunity for affected residents to influence service delivery by attending drop-in engagement sessions, public meetings, organised workshops or completing online/paper surveys to have their say.

The views of residents have been sought and received in a number of ways including:

- The Powys Budget Simulator
- Specific service type Consultations
- Legislative consultations

Appropriate methods of engaging with our residents are considered and implemented on an annual basis.

### **Member Seminars**

Members of the Council are engaged in the budget planning process from the outset through a series of budget seminars. These seminars look at the development of the budget proposals and all members have an opportunity to consider, challenge and input into the process. Financial assumptions and settlement information is shared with members and the impact on the budget modelled and considered. Members are provided with the Impact Assessments for each of the proposals and the feedback from the consultation exercises carried out.

### **Finance Scrutiny Panel**

The Finance Scrutiny Panel, comprising Group Leaders of non-Executive Groups together with representatives of the Audit Committee, continue to be engaged in the budget process and are regularly updated on the process and the proposals as they develop.

### **Conclusion**

In developing this Medium Term Financial Strategy, the Council has a clear framework within which to develop its 5-year budget model and a 5-year Capital Strategy Programme. The model and the assumptions included within it will be reviewed and updated as more information becomes available. Specific budget proposals are being developed and these will be finalised and reported in detail as each annual budget is developed and submitted for approval.

This process will enable the Council to strategically prepare to deliver a Council which is affordable, sustainable and able to achieve its 2025 Vision.

### **Supporting Documentation**

***Vision 2025: Our Corporate Improvement Plan***  
***Income Management and Service Cost Recovery Policy***  
***Capital Strategy***  
***Capital Receipts Policy***

***Reserves Policy***  
***Treasury Management and Investment Strategy***  
***Risk Management Framework***  
***Corporate Risk Register***