



# **Powys County Council's Medium Term Financial Strategy 2021 to 2026**



**Yn agored a blaengar - Open and enterprising**

## Foreword by the Leader

This Medium Term Financial Strategy (MTFS) sets out how the Council will develop its financial plans and manage its finances over the next few years and over the medium term.

None of us could have predicted the impact the Covid 19 pandemic was to have on the Council, our residents or businesses. Our plans for many years have been made in challenging and uncertain times, and this year we find ourselves doing so again with the added uncertainty created by the worldwide pandemic.

Powys has received a positive settlement from Welsh Government for a second year. This will again go some way to ease the pressure on Council services. However, the Council's budget remains under significant pressure as service demand, our costs and investment requirements continue to rise.

The Council has responded to the decade of austerity by reducing its spending by more than £100 million and has had to increase Council Tax year on year. Our focus has been on improving efficiency and as far as possible protecting crucial front line services from cuts whilst improving the quality of our social services for children and adults and Education across the county.

The combination of these factors, and continued uncertainty nationally around the path of the pandemic, the economy and public finance outlook, mean that we continue to face one of the most challenging periods in the history of Powys County Council. We must push ahead with our programmes of transformation across all our services while maintaining our focus on delivering high quality local services to our residents.

The Council has continued to make significant progress on its improvement journey during 2020 despite the Global pandemic. This has been recognised by regulators who were suitably assured of the progress made in both Adult and Childrens Services and the governance and ability of the Local Authority to continue this improvement without additional monitoring activity.

The case for transforming education provision across the County is now widely recognised. This year we approved an ambitious ten-year strategy that will transform education in Powys and reshape our education system so that it can provide lifelong learning opportunities for all our young people and equip them with the skills and knowledge they need to fulfil their potential.

This MTFS continues to see closer alignment between the policy framework and the way we plan to use our finances. This is supported by an approach which ensures that our limited resources are prioritised on securing outcomes that matter most to our residents. Our vision set out in our Corporate Improvement Plan Vision 2025 (<https://en.powys.gov.uk/vision2025>) is that by 2025 Powys will be widely recognised as a fantastic place in which to work, live and play.

The Cabinet has a bold and ambitious programme to see Powys play a significant role in the economy of Wales. The economy has to be at the heart of our thinking, without a strong vibrant, enterprising economy how will we provide quality jobs for our young

people, create and nurture our local companies and attract leading companies to Powys. The Mid Wales Growth Deal has secured a £55 million investment from the UK Government to support economic projects across Powys and Ceredigion, and Welsh Government have committed to match this. 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 attract more funding to deliver key services. This will help secure the County as a 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 2021 to 2026. It has been developed as part of the overall strategic planning process alongside Vision 2025, the Council's Corporate Improvement Plan. The strategy 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 2021/22, and indicative budgets for the following 4 years to March 2026. 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 10 year Capital Programme.

The model sets out how a balanced budget will be developed for 2021/22.

The model identifies the estimated requirement for the Council to find ways to reduce its spending by around £57 million over the five-year period of this strategy. Given that local government does not yet have funding information from Welsh Government beyond 2021/22, 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.

## **MTFS Principles**

As well as consideration of future income and expenditure scenarios, the MTFS provides a set of clear principles which will drive the Council's budget and spending decisions over 2020-25 and which Members and others can examine and judge the Council's financial performance against. The ten key principles are to ensure that:

1. The Council will continue to meet its statutory obligations and to demonstrate how its budget supports the priorities contained in Vision 2025.
2. The Council's financial control system will be sufficiently robust to support the delivery of financial plans and mitigate corporate risks.
3. All Council budgets will be reviewed annually to ensure resource allocations are delivering value money and continue to align to the delivery of priority outcomes in Vision 2025.
4. Financial plans will provide an optimum balance between income and expenditure for both capital and revenue.
5. Reserves will not be used to fund recurrent budget pressures or to keep down council tax rises.
6. The Council's General Fund reserve will be maintained at a minimum of 3% of Net Revenue Expenditure over the period of the MTFS.

7. Capital investment decisions will support the Council's corporate priorities and mitigate any statutory risks taking account of the return on investment and robust business cases.
8. Prudential borrowing will only be used to support the capital programme where it is affordable and sustainable within the Council's overall borrowing limits and the revenue budget over the long term.
9. Decisions on the treatment of surplus assets will be based on an assessment of the potential contribution to the revenue budget and the capital programme.
10. Budgets will be managed by members of SLT in accordance with the Council's Financial Procedure Rules.

## **Strategic Context**

### Economic and Fiscal Outlook

The Office for Budget Responsibility (OBR) published its report "Economic and fiscal outlook" in November 2020. The report provided an analysis and forecast of the UK's public finances.

The coronavirus pandemic has delivered the largest peacetime shock to the global economy on record. It has required the imposition of severe restrictions on economic and social life; driven unprecedented falls in national income; fuelled rises in public deficits and debt surpassed only in wartime; and created considerable uncertainty about the future. The UK economy has been hit relatively hard by the virus and the public health restrictions to control it.

Gross Domestic Product (GDP) in the UK is set to fall by 11 per cent for 2020.

The virus has taken a heavy toll on public finances, receipts are set to be £57 billion lower and spending £281 billion higher than last year. The combined impact of the virus on the economy and the Government's fiscal policy response has pushed the deficit this year to £394 billion, (19% of GDP) its highest since 1944-45.

The support to households and businesses has prevented an even more dramatic fall in output and eased the likely longer-term adverse effects of the pandemic, the furlough scheme, grants, loans, tax holidays and reliefs have helped businesses, but forecasts anticipate a significant rise in unemployment to 7.5% as support is withdrawn.

The economic outlook remains highly uncertain and depends on the future path of the virus, the restrictions put in place and the role out of the vaccine. It also depends on the outcome of the Brexit negotiations.

The OBR present 3 scenarios on the path of the virus, the best of which sees output returning to pre-virus forecasts with the worst case leaving output permanently

scarred by 6%. This is also based on an assumption of a smooth transition to a free trade agreement with the EU.

The scenarios suggest the deficit will peak at between £353 and £440 billion (17 to 22 % of GDP this year). Over the medium term the forecasts suggest that the deficit will settle at between 1.7 and 6.1% of GDP by 2025-26.

Unlike previous recessions the greater portion of the fiscal cost of the virus arises from Government's discretionary policy response rather than the hit to the economy caused by the virus.

Under the OBR's central forecast the pandemic leaves the public finances in a weaker position in the medium term and significantly adrift from any definition of balance in previous fiscal frameworks. Headline borrowing remains close at 4% of GDP and the current budget remains in deficit by 1% of GDP by the end of the forecast missing the Government's budget 2020 target to balance by 2023-24.

Halting the continued rise in public debt is likely to require some fiscal adjustment once the virus has ran its course, tax rises or spending cuts of between £21 billion and £46 billion (between 0.8 and 1.8% of GDP) would be required merely to stop debt rising relative to GDP.

### UK Government's Spending Round : Implications for Wales

The Spending Review provided the Welsh Government (WG) with a core Resource Departmental Expenditure Limit (DEL) of £15,660 million excluding block grant adjustments, which was 4.6% higher than the 2020-21 baseline. In addition, WG received £242m for farm funding and £2m for fisheries which are outside Barnett. The Spending Review also announced additional funding for COVID19 next year, of which Wales will receive an extra £766m.

The Spending Review also included a reduction of £131m to the capital budget compared to the 2020-21 baseline.

The UK Spending Review only covered a single year, so provides little information about the prospects for the Wales budget beyond 2021-22. There will be a further Spending Review next year to provide plans for 2022-23 and beyond.

It is possible that the UK Budget on 3 March 2021 will also have a considerable bearing on the Welsh Government's finances for 2021-22, through further spending or new taxation measures.

### Welsh Government's Draft Budget for 2021-22

Overall, the Welsh Government's Total Managed Expenditure will be just over £21bn in 2021-22. Within that definition is the Departmental Expenditure Limit (DEL) which is the element of the budget under direct Ministerial control.

The capital and revenue DEL has increased by £1.4bn (8.2%) to £18.9bn. Day-to-day spending will increase by £862m (5.5%) to £16.5bn and spending on capital will increase by £566m (30.8%) to £2.4bn. The capital increase is large as the Welsh

Government has borrowed and drawn from its reserve, there is undoubted reprofiling in the baseline as well.

Welsh Government's priority is protecting health and public services, providing an additional £420m for health and social services supporting the NHS's growth and recovery post-pandemic, and a settlement for local government of £176m to support pressures on schools and social services.

Alongside this, specific, targeted allocations include a further £40m support for the Housing Support Grant, over £20m for sixth form and further education demographic pressures, £9.4m will support crucial community and school mental health services in addition to a range of investments that further bolster efforts to tackle inequality.

As part of the "building a greener future" investment in housing, combating climate change, and reinvesting in town centres has been prioritised. An additional £36.8m for social housing, and £5m more to develop the National Forest and invest in wider biodiversity. An extra £40m is invested in education infrastructure, including £5m for the net-zero carbon schools pilot. Funding is provided to continue decarbonising transport, boosting the funding for active travel by £20m, and providing a total investment of £274.7m in rail and metro.

Welsh Government are making use of their devolved tax powers to help Wales recover. With effect from 22 December 2020, the starting threshold of the land transaction tax paid on non-residential property purchases is lifted by 50 per cent, businesses will pay no tax on purchases costing up to £225,000. The higher residential rates of land transaction tax will rise by 1 percentage point to provide additional funding for the Welsh Government to invest in their housing priorities.

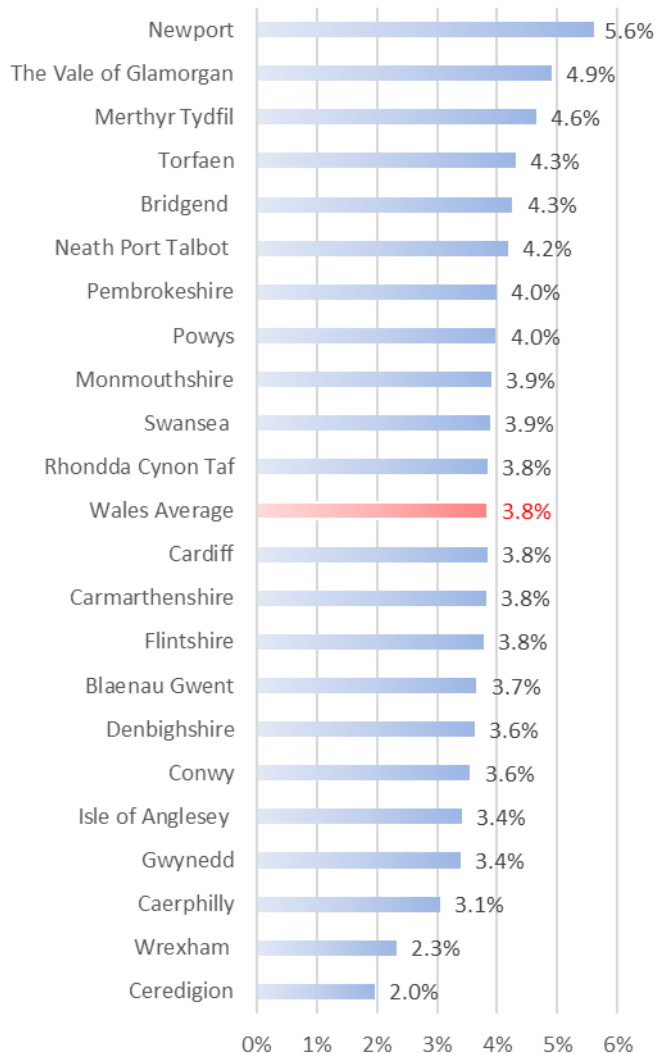
From April 2021, landfill disposals tax rates will increase in line with inflation to support the landfill disposals tax policy objective of reducing waste going to landfill in Wales. This is consistent with UK landfill tax rates for 2021-22 and thus will also act to protect against the risk of waste being transferred across Wales –England border to take advantage of lower rates. An additional £13.4m is provided to support children and young people, including £8.3m for curriculum reform.

Investment will also support the development of improved digital public services, reformed procurement for social value and new cultural projects promoting black history in Wales.

### The Local Government Revenue Settlement

The Aggregate External Finance (AEF) will increase by £176 million a 3.8% increase. Authority's settlements range from the lowest increase in Ceredigion with 2% and the highest in Newport with an increase of 5.6%. the range largely reflects the movement in datasets including a change to use the mid-year population estimates.

### **Figure 1: Changes to AEF, 2020-21 to 2021-22 by local authority**



Source Welsh Government Provisional LGF Settlement 2021-22

## The impact of the Coronavirus Pandemic

The pandemic has already had a profound and immediate effect on public sector finances. The impact on public spending over such a short period of time is unprecedented in modern peace time.

The Council's financial position has been supported heavily by additional funding from the Welsh Government through 2020/21 and without this the Council would have had to draw heavily on its revenue reserves to balance the budget during the year.

It is likely that the financial impact of the pandemic will continue into 2021/22 and will almost certainly affect public sector finances for many years to come irrespective of the course of the pandemic.

The pandemic has affected our financial position both in terms of additional costs and loss of income. Additional costs are most significant within Social Services and Education as well as providing Free School Meals and funding the cost of Personal



Protective Equipment. There is further pressure on the Council Tax Reduction Scheme as the number of claimants rose by 850 claimants at an estimated increase of £600k and it is likely to rise further through 2021. The loss of income has been suffered across many services, with significant losses from car parking, licencing and sampling, and trade waste. Council Tax collection is also reduced by 0.66%.

Planning over the medium term is difficult with heightened levels of uncertainty, not only in respect of settlement funding levels but also the continued impact on our own income streams for Council tax and fees and charges, will these recover to normal levels post pandemic or will the impact continue into future years. The economic impact of the pandemic is also likely to have wider repercussions for people's ability to pay for services.

Given the breadth and depth of the impact of the pandemic to date, alongside the uncertainty surrounding its future course, the Council will continue to face difficult choices for year to come.

To ensure our future sustainability robust medium term financial planning is crucial.

## **Local Context**

Powys County Council has taken action to reduce its spending by more than £100 million over the last decade as a response to cuts in government funding and the need to meet inescapable additional costs in some areas.

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 older population that is predicted to increase at a faster rate 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 and higher education and career opportunities are the main contributors to this trend.

These factors in combination present significant challenges to the Council. As evidenced in the Rural Cost Analysis (<https://en.powys.gov.uk/article/7842/Funding-changes-needed>) 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.

This Council understands its legal obligation to set and deliver a balanced budget each year and has a significant transformation programme underway to improve the quality of key services such as education, social care, highways, transport and recycling while also reducing our operating costs over the medium term.

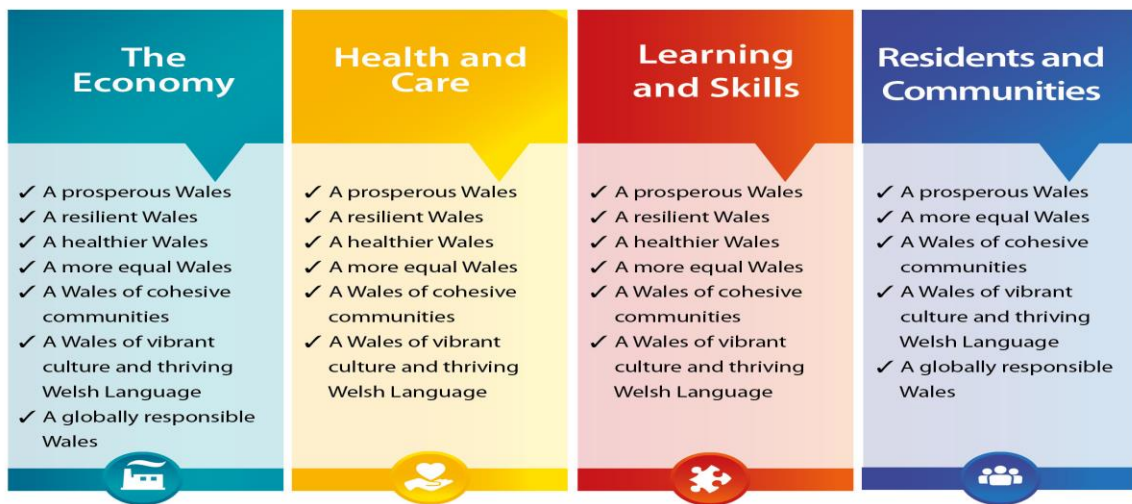
On the current modelling, to deliver a balanced annual budget between April 2022 and 2026 the Council will need to reduce its spending by more than £45 million and to increase council tax by 5% year on year. This will be achieved through

transformational change and cost efficiencies but reductions in some services offered will also be inevitable.

## **Vision 2025 – Our Corporate Improvement Plan**

Vision 2025 was approved by full Council in April 2018 and it set out the long-term vision for the council.

The Vision and Corporate Improvement Plan have been reviewed and the priorities redefined as follows:



- **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

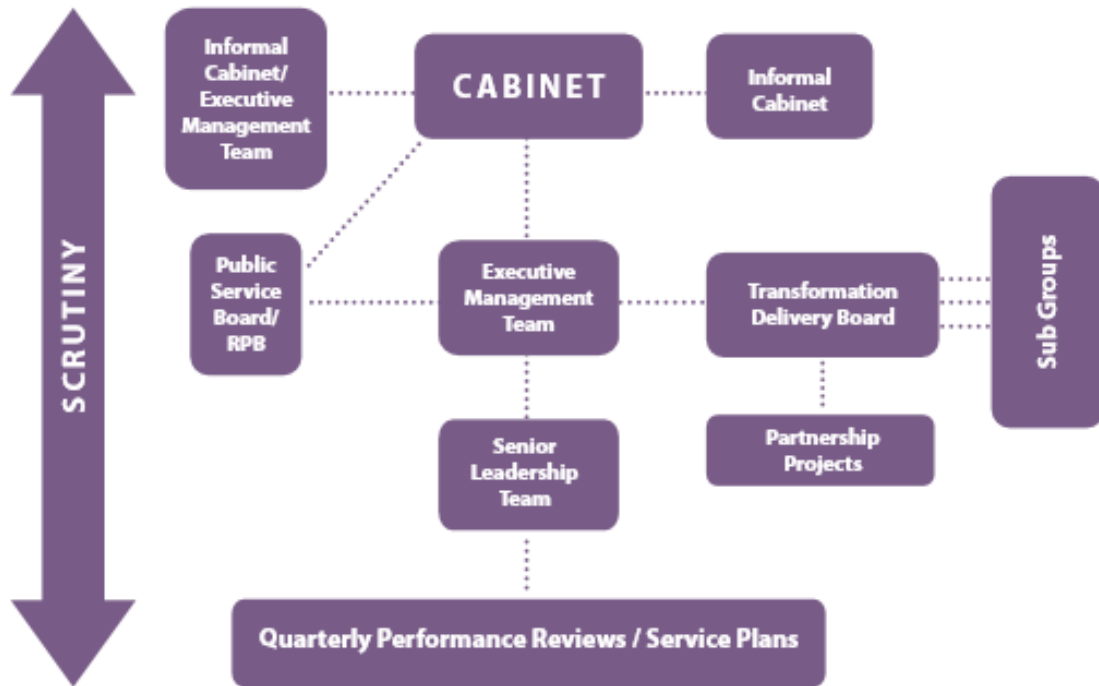
The Corporate Improvement Plan is our road map for the next four years, setting out our top priorities and milestones, including those we are working on with our partners which are also articulated in the Powys Public Services Board Wellbeing Plan Towards 2040, and the Powys Regional Partnership Board Joint Area Plan A Healthy Caring Powys.

The revised Plan will be presented to full Council in February for approval.

## **Delivering Vision 2025: Transforming the Council**

The Council continues with its ambitious Transformation Programme to help deliver Vision 2025, the governance of which is shown in the diagram below.

## Governance of Transformation



The Vision 2025 Transformation Programme contains nine key programmes as shown in the diagram below.



The Programme is governed by a Transformation Delivery Board comprising the Cabinet and the Executive Management Team and progress of each programme is included in the Council's performance management reports which are presented to Cabinet each quarter. There are service transformation programmes also underway across the Council and progress on these also reported to the Board at regular intervals whilst some services: Social Services, Education, Housing and HTR report directly to Service Improvement Boards.

### **Medium Term Financial Planning**

The Council's budget planning has traditionally been determined using an incremental budgeting approach and has tended to focus on one year with limited development over the longer term. This will not deliver a sustainable financial position for the Council going forward. The Council is therefore moving to an Outcome Based Budgeting approach, focused on the medium to long-term and aligned to service and workforce planning.

The strategy is based on an approach which brings together all elements of the Council activity to deliver Vision 2025, a programme of transformation, and one 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 five year budget model. 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.

The introduction of the Integrated Business Plan has been developed over the last couple of years and the process is now starting to embed across the Council.

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 all feed into the overarching Corporate 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 68% of our funding.

The Provisional Settlement or Aggregate External Funding (AEF) figure was announced on 22nd December 2020 at a level of £191.897 million. Funding in Powys has increased in cash terms by £7.343m a 4% increase. This includes adjustments to the 2020/21 base figure with a transfer in for the Teachers Pay Grant, £160k, and data changes of £105k.

Powys has £1,449 of funding per capita, compared to the Wales average of £1,471 and the year on year change ranks 6th out of all the Unitary Authorities, but when adjusted for transfers the revised ranking is 8th in terms of its increase, the highest being Newport with 5.6% and the lowest Ceredigion with a 2% increase.

Welsh Government did not receive any additional funding through the Barnett formula to provide for public sector pay awards next year given the UK Government's decision to pause public sector pay rises. The settlement does not therefore provide for any increase in public sector pay, the implications of pay awards in 2021/22 will need to be accommodated within our budget plan.

The Finance Minister's statement is clear that Welsh Government recognise the need to continue to provide funding to support the response to the pandemic. This will be considered separately and does not form part of the settlement.

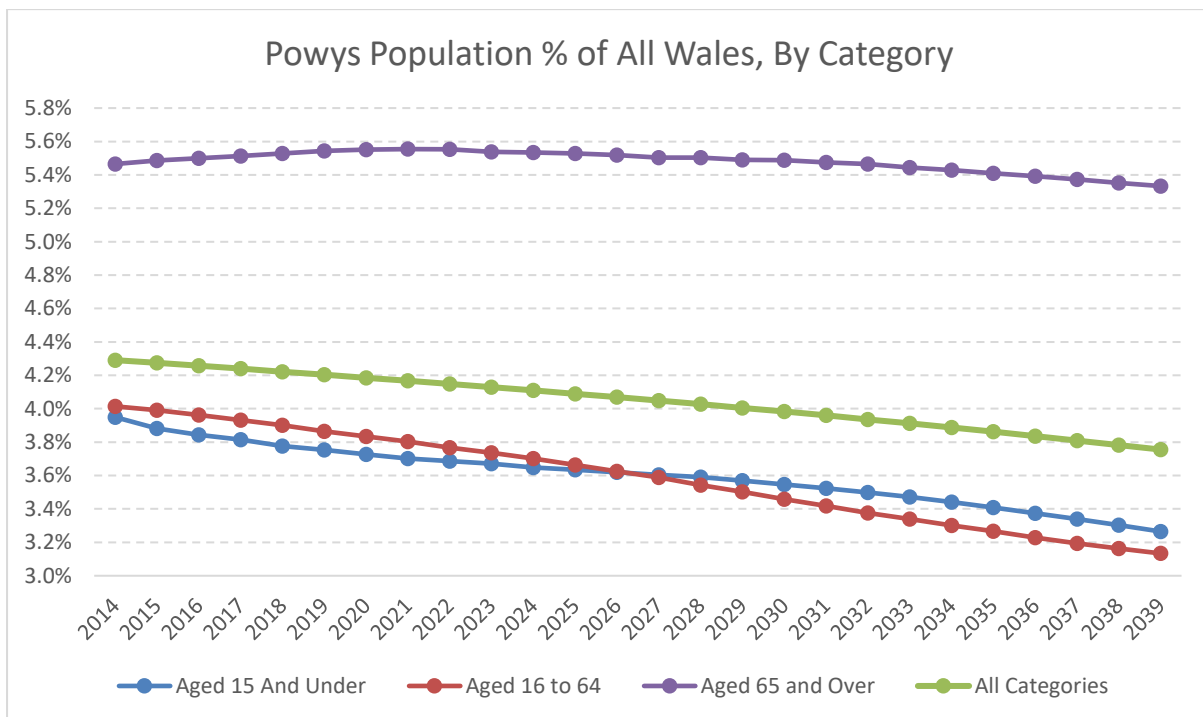
Powys collects NNDR (more commonly known as Business Rates) from businesses within the county. These funds are pooled at a national level and redistributed to Councils via a formula. Powys receives over £13m more than it collects.

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 <sup>1</sup>	Powys				All Wales		
	2020-21 Final	2021/22 Provisional	% Difference	Rank	2020-21 Final	2021/22 Provisional	% Difference
Population <sup>2</sup>	132,084	132,475	0.3%	17	3,136,749	3,163,125	0.8%
Pupil Numbers - Nursery and Primary	9,746	9,577	-1.7%	20	263,655	261,664	-0.8%
Pupil Numbers - Secondary in year groups 7-11	6,306	6,452	2.3%	9	161,806	165,357	2.2%
IS/JSA/PC/UC (not in employment) claimants - 18 to 64	1,480	1,782	20.4%	3	79,026	90,136	14.1%
IS/JSA/PC claimants - 65+	4,248	4,035	-5.0%	17	105,082	100,207	-4.6%
IS/JSA/PC/UC (not in employment) claimants - all ages	5,740	5,837	1.7%	16	184,558	191,132	3.6%
SDAD/LA/PIP claimants - 18 to 64	4,502	4,502	0.0%	15	142,023	142,657	0.4%

The total number of people living in Powys has declined over recent years but the table above shows a slight increase, this may however be due to the change in the data collected which is now based on the mid-year estimates. The population across Wales has increased and the change across other authorities has an impact on Powys and the distribution in funding. The population trend across Powys is shown in the table below with further decline expected.



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.

Welsh Government have not provided any settlement figures for future years. The table below models the percentage change in AEF if a reduction were applied. A 1% reduction equates to £1.8 million.

% change in AEF	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%	3.50%	4.00%
£'000	918	1,836	2,754	3,672	4,589	5,507	6,425	7,343

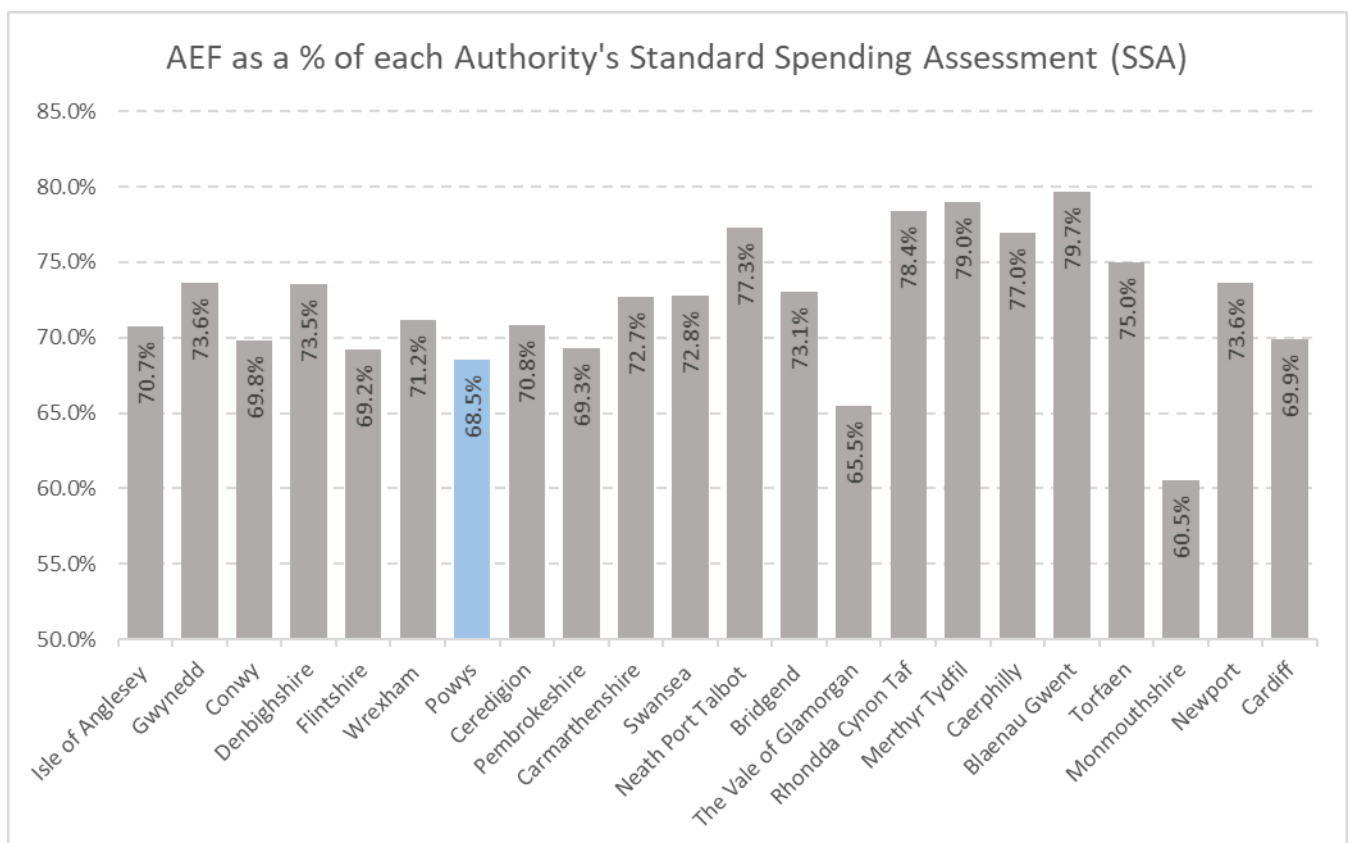
Due to the amount of funding delivered to the Council in this way, any change can be significant and in order to plan over a 5-year period we have modelled a number of funding scenarios ranging from plus 2% to minus 2%.

### 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 £70m of grant funding each year. These grants can change year on year 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 32% of the Council's Net Revenue Budget. Powys' Council Tax contribution is proportionally greater than other Authorities, an authorities' ability to raise Council Tax is calculated on the Council Tax base and Powys has a higher Council Tax base than most of the other authorities. The below graph shows the percentage of each Local Authority's Standard Spending Assessment covered by central funding (AEF).



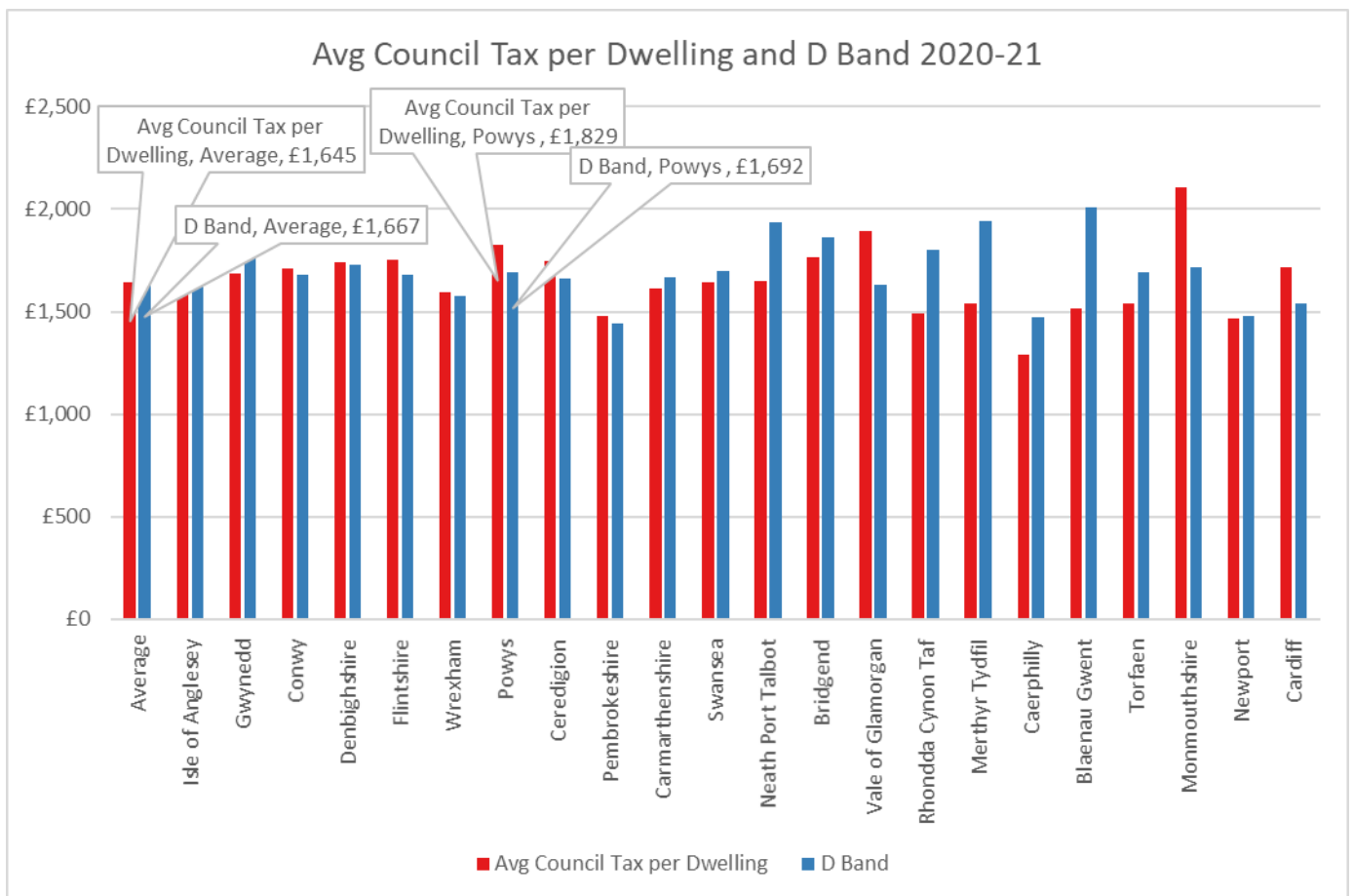
In our financial model (FRM), we are proposing an increase in Council Tax each year of 5% for future years.

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 that Council Tax increases ranging from 1% to 10% would produce.

% change in Council Tax	1.00%	2.00%	3.00%	4.00%	5.00%	7.00%	10.00%
£'000	927	1,855	2,782	3,709	4,636	6,491	9,273

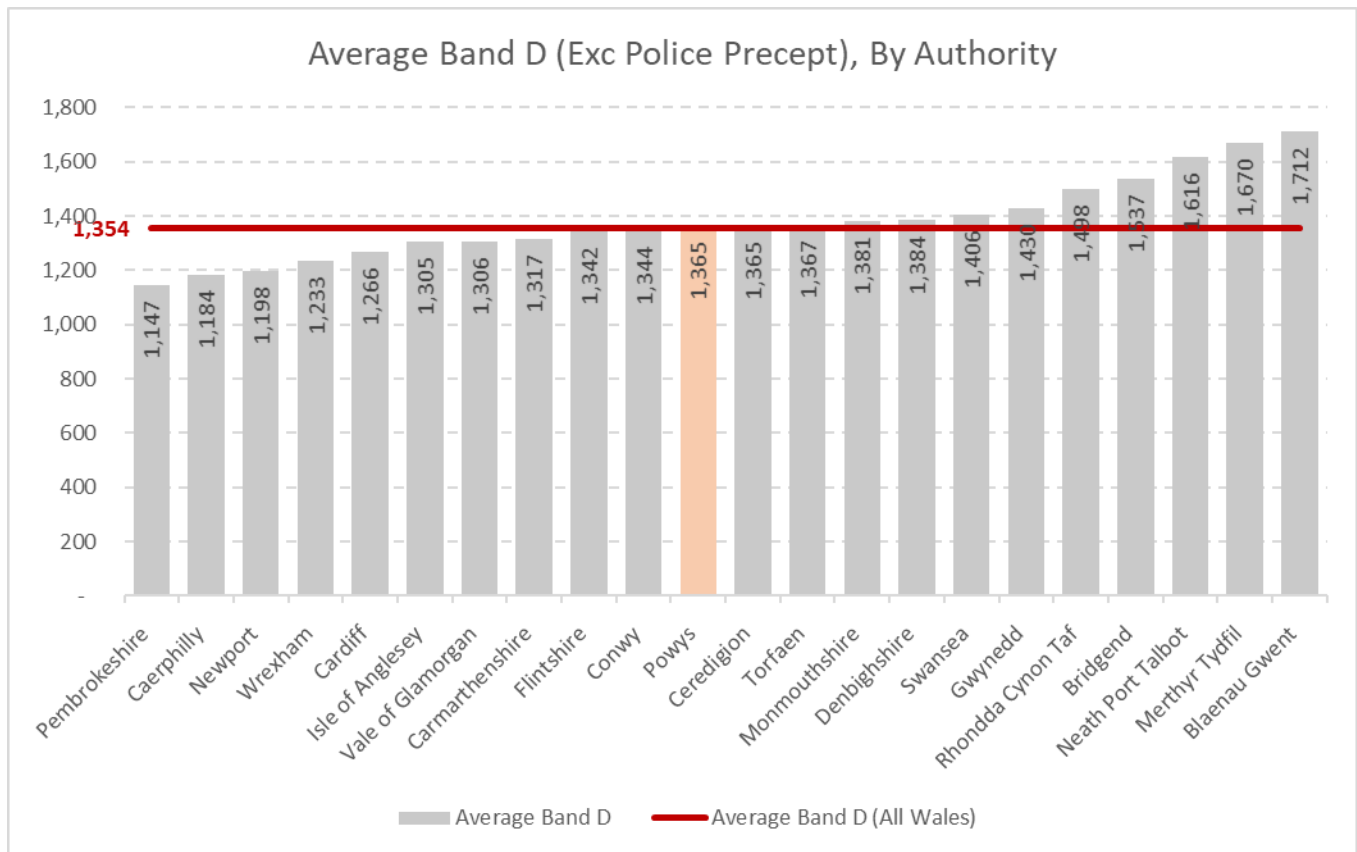
A balance needs to be struck between the ability to raise enough money to fund important services to the right level and the impact increasing taxation has on the residents of the County. Average council tax per dwelling in Powys for 2020/21 was the 3rd highest in Wales, this is particularly sensitive in a county with one of the lowest average wage levels in Wales. The graph below compares Powys against Welsh Local Authorities in terms of 2020/21 council tax average cost per dwelling and the Band D average (these figures include all precepts).



For 2020/21, the average annual Council tax bill for a Band D property in Powys was £1,692 (including community council and police precept). This was broadly in line with the Wales average for Band D properties of £1,667.

The table below shows the Band D Council Tax level for each of the local authorities in Wales (excluding all precepts).





Council Tax collection rate for 2019/20 was 97.2% (0.1% down on previous year) which compares with an average of 97.0% for all unitary authorities in Wales. The highest collection rate in Wales for 2019/20 was 98.0%

The pandemic has had an impact on Council tax collection across Wales, at the end of November 2020, an average reduction of 1.58% has been recorded. Powys has suffered the least impact with collections rates down by 0.66%. In setting the Council Tax base for 2021/22 the ongoing impact of the pandemic has been considered and the collection rate reduced by 0.1%. Future years will be assessed on an annual basis.

## **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 more than £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 capture 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 have been developed and are monitored through the Council's Transformation Delivery Board for inclusion in the annual budget cycle and 5-year plan.

It is expected that the Vision 2025 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 not indicated funding levels for future years	£1.83m	2.0%	-	(2.0%)
Council Tax	Cabinet have set the current assumption at 5% increase per annum 2022/23 onwards	£0.92m	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	External revenue grants expected in 2021/22	£0.70m	-	-	-
Pay Awards: General	Includes NI & Pensions; excludes Schools Delegated	£1.10m	1.00%	1.00%	1.00%
Other Inflation/ Price Pressures		£0.74m	2.00%	2.00%	2.00%

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.

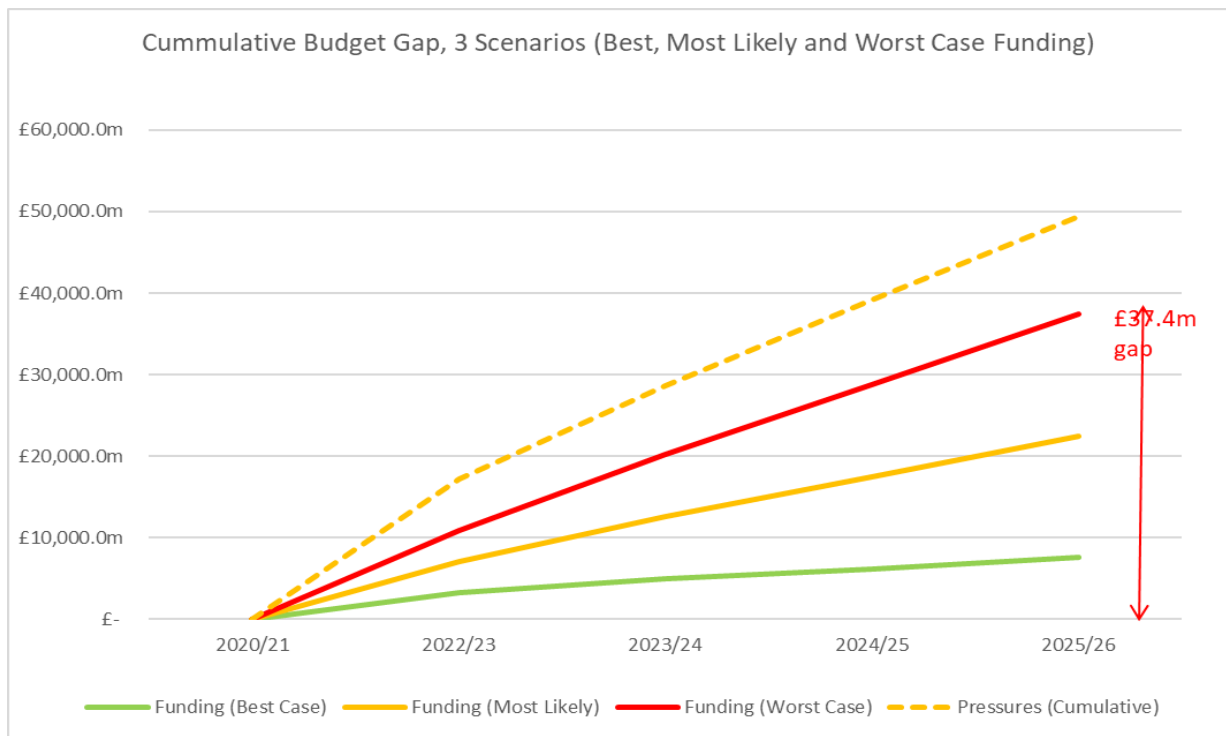
The Medium Term Financial Strategy:

- 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 as well as some service reductions that form part of services three year plans.

Assumptions set out throughout the strategy are based on the worst case funding scenario, the graph below shows the impact of the various funding possibilities against the increasing level of pressures.



The FRM highlights that over the next four years we estimate £49.3 million of pressures (including inflation, capital financing cost to support borrowing on the capital programme and service pressures). The worst case scenario provides additional funding of 5% council tax funding, there is a financial gap of £37.4m by 2025/26. This includes mitigation by Cost Reductions of £7.7 million.

Summary of Gap - Scenarios	£'000	2022/23	2023/24	2024/25	2025/26	Cumulative
Best Case +2%		3,212	1,721	1,178	1,441	7,553
Most Likely - Flat Cash		7,050	5,482	4,864	5,053	22,450
Worst Case -2%		10,888	9,243	8,550	8,666	37,347
Includes - Cost Pressures		17,133	11,508	10,471	10,191	49,304
Cost Reductions		(5,645)	(1,361)	(714)	0	(7,720)

The current worst case FRM modelling is summarised below.

FINANCE RESOURCE MODEL 2021-2026

REVENUE FUNDING		2021/22	2022/23	2023/24	2024/25	2025/26
		£000s	£000s	£000s	£000s	£000s
Base Funding (Prior Year)		269,440	280,664	281,264	282,168	283,375
AEF (RSG & NNDR Allocation)	+4% / -2%	7,608	(3,838)	(3,761)	(3,686)	(3,612)
Council Tax	3.9%	3,616	4,438	4,666	4,893	5,137
<b>Total Projected Revenue Funding</b>		<b>280,664</b>	<b>281,264</b>	<b>282,168</b>	<b>283,375</b>	<b>284,900</b>

REVENUE EXPENDITURE		2021/22	2022/23	2023/24	2024/25	2025/26
Base Budget (Prior Year)		269,440	280,664	292,152	302,299	312,056
<b>General Inflation:</b>		1,907	2,994	3,053	3,111	3,174
<b>Demographics</b>						
ASC		700	1,469	1,062	1,397	1,000
Children		187	187	187	187	187
Education		701	(75)	0	0	0
<b>Corporate and Service Specific Pressures:</b>						
Delegated		787	1,083	1,091	300	500
Education		772	(83)	50	52	200
HTR		780	262	660	300	500
H&CD		134	0	0	0	0
PPPP		528	0	0	0	0
ASC Commission/Director		33	0	0	0	0
ASC		7,354	4,205	3,423	3,380	2,000
Children		2,297	561	342	189	500
Transf/Comm		38	0	0	0	0
WOD		126	0	0	0	0
Digital		225	0	0	0	0
Legal		27	0	0	0	0
Corp		927	200	200	50	500
Council Tax Reduction Scheme (impact of 3.9CT in		951	700	450	450	450
Fire Levy		178	180	180	180	180
<b>Savings</b>		<b>(11,828)</b>	<b>(5,645)</b>	<b>(1,361)</b>	<b>(714)</b>	<b>0</b>
<b>Undelivered Savings previous years</b>		<b>1,634</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Capital Financing Costs:</b>						
Capital Funding		255	962	810	875	1,000
Changes in MRP		2,512	2,488	0	0	0
<b>One Off Funding:</b>						
Transformation capital directive changes		0	2,000	0	0	0
<b>Total Projected Revenue Expenditure</b>		<b>280,664</b>	<b>292,152</b>	<b>302,299</b>	<b>312,056</b>	<b>322,247</b>

<b>(Funding Shortfall)/ Surplus - Cumulative</b>	<b>(0)</b>	<b>(10,888)</b>	<b>(20,131)</b>	<b>(28,681)</b>	<b>(37,347)</b>
<b>(Funding Shortfall)/ Surplus - In Year</b>	<b>(0)</b>	<b>(10,888)</b>	<b>(9,243)</b>	<b>(8,550)</b>	<b>(8,665)</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 continue to seek partnering arrangements. 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). 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. The council has already 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. The benefit of a more flexible workforce, increases morale and productivity.
- g. Commercialisation.  
A more commercial approach is already evident with contracts being won, and services provided, to other public organisations. The Council has already set up "Powys Commercial Services" a local authority trading company and this provides a vehicle for additional trading opportunities. This will form a key part of our future planning. There is great scope to increase the income flows to the Council. 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, charges and rentals plays an important part of our financial strategy. The Council raises approximately £70m 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.

## **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.

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 since April 2016 and will again use this to support transformation costs including staff severance costs.

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.

The directive ends on the 31st March 2022 and our budget plan recognises this and builds in an ongoing revenue budget to support these costs into the future.

## **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 cost reductions, 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.

The more reserves held by a council indicates that its financial position is more sustainable. As per the recent Audit Wales report "Financial Sustainability of Local Government as a result of the COVID-19 Pandemic" October 2020, Powys' useable reserves were 10% of the net cost of service. Nine other authorities were around this level, one was much lower at 5% whilst 12 others ranged from 18% to 33%.

Ring-fenced and Specific Reserves are identified and held for defined purposes, this includes a Spend to Save reserve which provides a source of funding for transformational activity across the Council.

## **Investments and Borrowing**

The Council has a clear Treasury Management and Investment Strategy which is approved at Council each year and sets out the expected activities and appropriate strategies of the Treasury function in respect of borrowing and investments.

Cashflow management is essential to ensure we minimise our need to borrow. Strengthening the understanding and importance of this function could facilitate stronger working capital and the ability to invest balances at a rate of return level of around 0.5%. In recent years, minimal investment income has been achieved through



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. The coronavirus outbreak has done huge economic damage to the UK and economies around the world. The Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%. Current forecasts do not predict an increase in Bank Rate in the near-term, a little upward movement in PWLB rates over the next two years is however expected. 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 cost reductions 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.

## Cost Reductions

The level of cost reductions required in 2021/22 is significant at £11.8 million. Any unforeseen delays in implementation will impact on the achievement of the reductions required. Progress on the delivery of approved reductions will be reported to Cabinet on a monthly basis. Slippage on the delivery of proposals presents a risk to the budget plan and any resulting overspend would ultimately fall on the council’s general fund reserve. However, the emphasis is placed on ensuring reductions are delivered. Plans within service areas need to be managed robustly, to limit any underachievement and monthly budget monitoring and savings delivery monitoring ensures Cabinet has visibility of financial performance and can take corrective action if necessary.

In March 2020 the Council approved cost reduction proposals of £10.79 million. In addition, undelivered cost reductions in 2019/20 of £1.60 million have been rolled forward for delivery in the current year. This increases the value of cost reductions required during 2020/21 to £12.394 million. 67% or £8.351 million have been delivered and a further 12% £1.432 million are assured of delivery by Heads of Service. £2.611 million, 21% are unachieved and are at risk of delivery.

The table below summarises the level of savings delivered over the last 7 years.

<b>Financial Year</b>	<b>Target £m</b>	<b>Delivered £m</b>	<b>%</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	70%
2018/19	12.3	6.5	53%
2019/20	21.7	15.8	73%
2020/21 forecast	12.4	9.8	79%
<b>Total</b>	<b>100.7</b>	<b>73.7</b>	<b>73%</b>

## Income

The budget is supported by approximately £70m 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.

## 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. Scenario planning helps the Council mitigate this risk.

## 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, Natural Disasters and Pandemics.
- 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 cost reduction 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.

For the current year we have taken a different approach that focuses on the impact the COVID-19 pandemic has had on the Council and how we have supported residents and businesses through it. "Future-proofing Powys" asks residents for their views on:-

- how the Council has responded to the pandemic
- what the Council should focus on now to support businesses and the economy which services are most important to our communities
- what can be learnt from the way we have worked this year and can these approaches be adopted in the future.

## **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 10-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 Receipts Policy***  
***Reserves Policy***  
***Treasury Management and Capital Strategy***  
***Risk Management Framework***  
***Corporate Risk Register***