Powys County Council's
Medium Term Financial Strategy

2023 to 2028

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1. Introduction

1.1 Purpose

The Medium-Term Financial Strategy (MTFS) sets out the financial strategy for Powys County Council for the period 2023 to 2028. It has been developed as part of the overall strategic planning process and aligned with the Council's Corporate Plan. It 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 2023/24, and indicative budgets for the following 4 years to March 2028. This means the Council has an ongoing financial plan to:

- Enable service transformation within the funding levels available.
- Prepare for the challenges in setting a balanced budget in future years.
- Allows decision makers to consider the allocation of resources, helping to ensure they are directed towards delivering core responsibilities alongside corporate priorities.
- Understand the Council's financial resilience, helping to protect the Council's long term financial health and viability.
- Considers affordability in decision making. It is a live document so will change as estimates and assumptions are confirmed.
- 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.

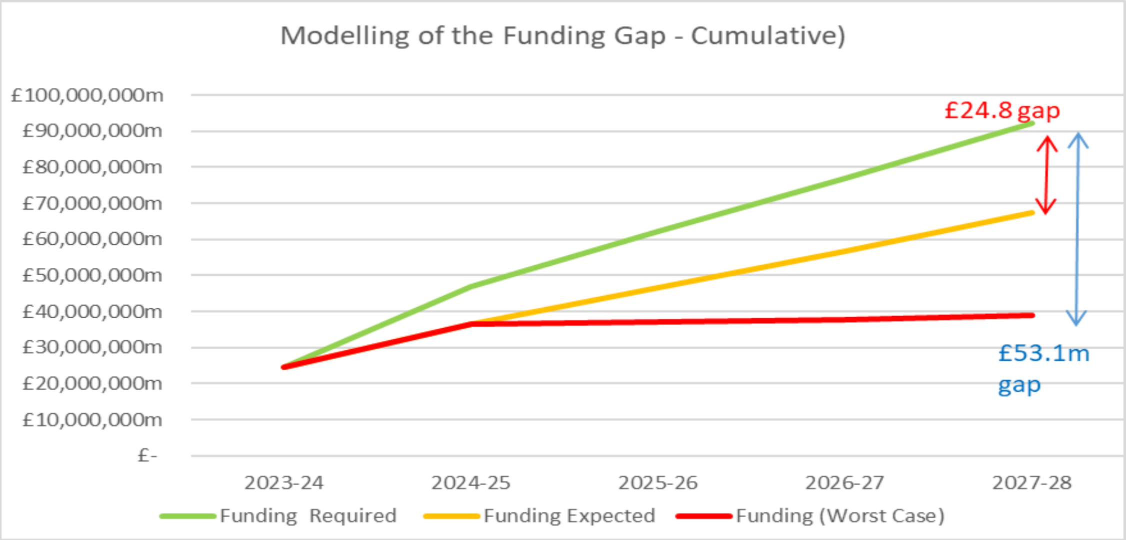
The MTFS includes all Council services activity funded by the revenue budget, the Housing Revenue Account, and the Capital programme. This information is presented in a 5-year budget model and a 5-year Capital Programme.

1.2 Overview

Over the last two years the Council has faced an unprecedented challenge supporting the demands of the Covid 19 pandemic, addressing the implications post Brexit and more recently the implications of the events in Ukraine and the national economic situation. These challenges have created significant financial pressures, albeit partially supported by positive Welsh Government (WG) grants and settlements. For 2022-23 a 9.5% increase was given to Powys covering the cost of some pressures, the real living wage implementation and pay inflation. But the ever-increasing costs and continued rising inflation means this increase is not sufficient to fund the demands as we move into 2023.

The receipt of the provisional local government funding settlement for 2023-24 provided certainty on funding levels for 2023-24 and this has now been factored into our budget model and the revised budget gap to 2028 is £24.8 million based on the indicative settlement from WG for 2024/25 and forward settlement assumptions, this rises to £53.1 million for the worst-case scenario based on a 2% reduction to the WG settlement. Figure 1 below provides the overall gap between the estimated cost of service delivery taking into account a level of inflation, demand and pressures against the funding we are likely to receive.

Figure 1



1.3 <u>Approach</u>

The MTFS is based on an approach which brings together all elements of the Council activity to deliver the Corporate Plan, a programme of transformation, and delivers appropriate levels of statutory service. The process of modelling future budget assumptions uses pay and price pressures and changes in service demand, alongside expected funding, from which the budget gap is identified for each year of the plan.

To bring together Service Plans and the resourcing demands, the use of Integrated Business Planning (IBP) process has been implemented and highlights service objectives that support the Corporate Plan and transformation underpinned by the financial plans to deliver and benefit from the objectives.
The IBP incorporates a level of service evaluation on performance, cost analysis, benchmarking, regulatory recommendations, proposals for improvement and Service User / Resident Feedback.

1.4 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 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 Corporate Plan.

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.

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 4% of Net Revenue Expenditure (excluding the Schools Delegated budget) 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.

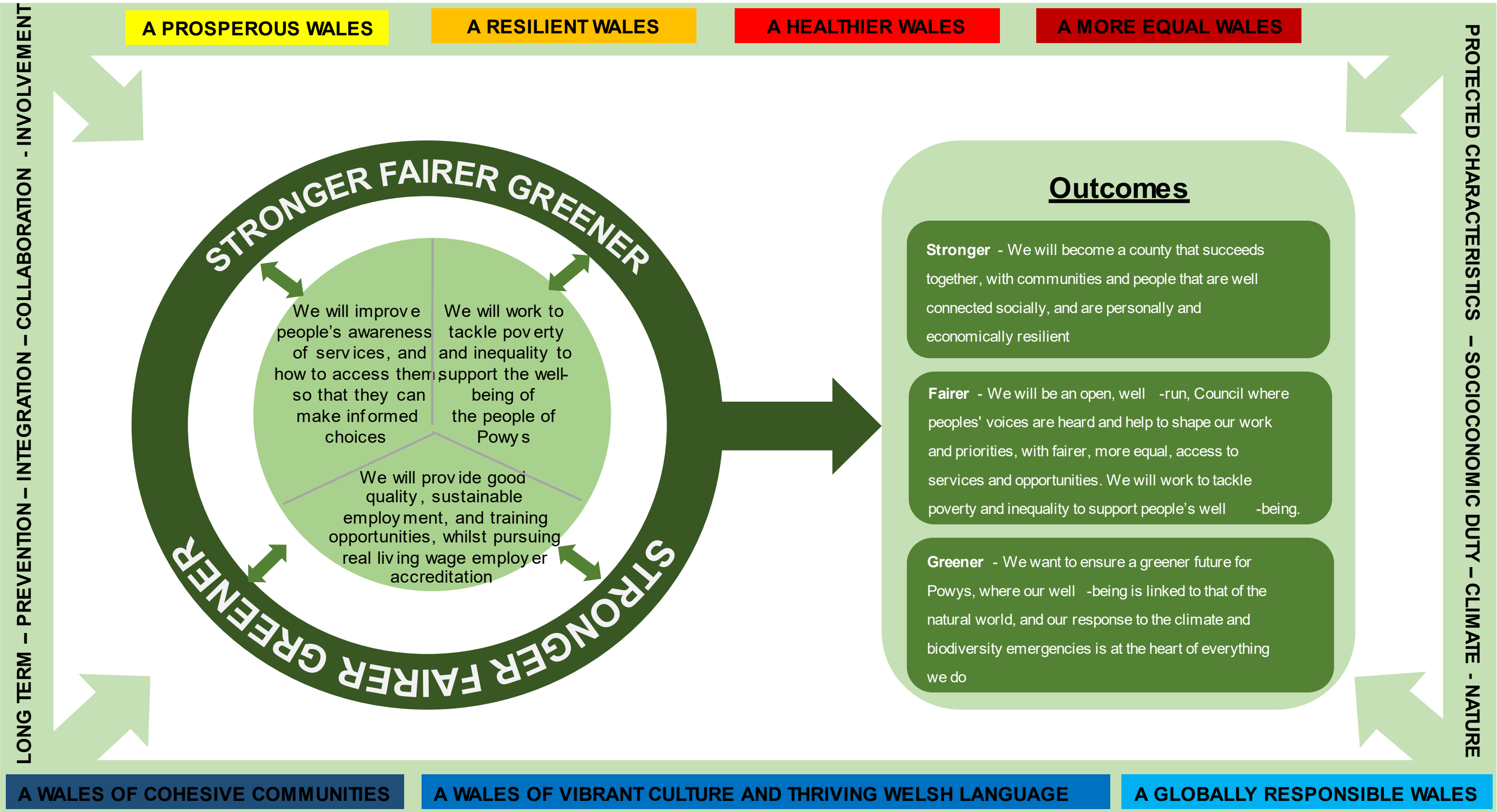
10. Budgets will be managed by members of SLT in accordance with the Council's Financial Procedure Rules.

2. Key Drivers

2.1 Council Priorities

The Councils' new administration is in the process of finalising its ambitious five-year plan and their priorities are set out in Figure 2:

Figure 2



The priorities 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 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 contribute positively to support Climate Change
- 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.

It is essential that the Council priorities are funded through either revenue or capital to ensure that they can be delivered over the short to medium term.

2.2 Key Demands

Education – investment in schools transformation programme as part of the WG 21st century schools band B programme, a cycle of building and modernising the estate with the reduction in the asset base to deliver affordable, energy efficient buildings that improve learner entitlement.

Social Care - The priority in social services is to increase early help in order to enable and support as many children and adults who need help as possible to live in and engage with their own communities. This requires increased investment into universal services and early help and/or edge of care services, along with increased investment in in-house and commissioned not-for-profit services, while reducing investment in out of county and for-profit service provision.

Housing – The Council has in place a strategy to build social housing properties through the capital programme, as well as buy and bring back into use empty properties nd to prioritise improving the energy efficiency of its least efficient homes. These investments are funded through the ring-fenced Housing Revenue Account (HRA), funded primarily by rental income received from tenants, with government support limited to new development and maintaining the Welsh Housing Quality Standard. The Council has more than 4,700 households registered with *Homes in Powys* for secure, affordable homes.

Homelessness – There has been an increase in households presenting as homeless. Homelessness service demand has increased from 383 households in 2016-2017, to 833 households in 2021-2022.The Welsh Government implemented the 'Everyone In' policy during Covid-19, which is now remaining as a permanent feature of homelessness policy and practice in Wales. There has been a substantial increase in the number of homeless single person households, whose housing options are limited by the lack of smaller sized accommodation regardless of tenure in Powys. Homelessness is a statutory service funded through the general fund.

Demography The total number of people living in Powys has remained static over recent years with a slight increase projected over the next few decades. There is a challenge of a decreasing working age population combined with a rapidly increasing older people population. This is leading to issues regarding recruitment and retention of workforce. The population across Wales has increased and the change across other authorities has an impact on Powys and the distribution in funding.

Deprivation – Poverty statistics - 4,088 families live in absolute poverty in Powys, 31% (1,248) of these were lone parent households (Department for Work and Pension, 2019-20).

The average household income in Powys is **£33,458** (Wales: £34,700, UK: £40,257).

- 55% (33,149) of households earn below the Wales average household income of £34,700, 37% 22,162 earn above, and
- 70% (42,107) of households earn below the UK average household income of £40,257 (24% earn above) (CACI, 2021).

Employment – Powys has a low unemployment rate, but also is a low waged economy. With the current inflation levels set to rise it is likely there will be more unemployment and demands for access to CTRS, benefits advice and levels of arrears in council tax, housing etc increase

Real Living Wage (RLW) –. The Council is a Real Living Wage Employer and an advocate of RLW. In 2022 Welsh Government announced that it would provide financial support for Local Authorities, to support the payment of the Real Living Wage in the Care Sector and this has been implemented across Powys with a wider aspiration to become accredited for both its employees and those who provide services to the council. To implement this across providers and contracts would cost in excess of £1m and be a competing priority in the FRM.

Climate Change – The pledge to address the Climate Change emergency and reduce carbon emissions to zero by 2030. This will require significant capital investment, alongside a change in key polices and procurement. Activities include building sustainable homes, greater active travel, Electric Vehicle replacement, green energy such as solar, sustainable procurement, energy efficiency works and carbon offsetting.

2.3 Economic and Fiscal Outlook

The current economic context is challenging. On 17th November 2022 the Office for Budget Responsibility (OBR) published its report "Economic and fiscal outlook". The report provided an analysis and forecast of the UK's public finances based on the budget statement released by the Chancellor of the Exchequer on the same day.

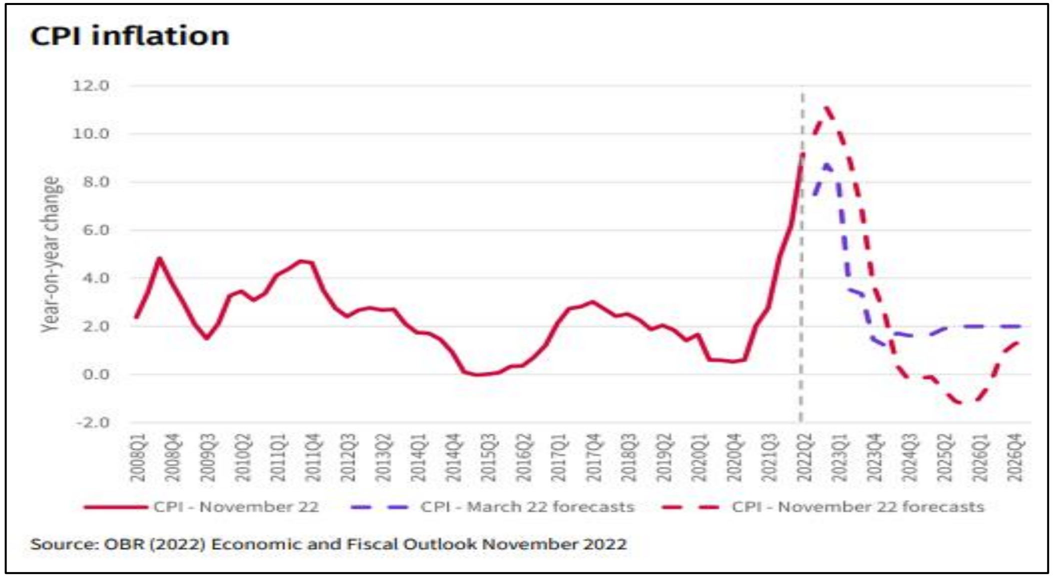
Over the past six months, the global energy and food supply shocks emanating from Russia's invasion of Ukraine have intensified. The further curtailment of Russian imports saw European wholesale gas prices rise ten-fold from pre-pandemic levels, and markets now expect prices to remain four times higher in the medium term. Rising energy, food, and other goods prices have pushed up the interest rates set by inflation-targeting central banks to levels not seen since the 2008 financial crisis. This has taken much of the wind out of the global economic recovery from the pandemic and ratcheted up the financial pressure on governments that emerged from it with higher debt and are again being called upon to help households and businesses through this latest crisis.

As a net energy importer with a high degree of dependence on gas and oil to meet its energy needs, higher global energy prices will weigh heavily on a UK economy that has only just recovered its pre-pandemic level. Petrol prices are already up a fifth since their October forecast and household energy bills were set to jump by 54 per cent in April.

CPI inflation is set to peak at a 40-year high of 11 per cent in the current quarter, and the peak would have been a further 2½ percentage points higher without the energy price guarantee (EPG) limiting a typical household's annualised energy bill to £2,500 this winter and £3,000 next winter. Rising prices erode real wages and reduce living standards by 7 per cent in total over the two financial years to 2023-24 (wiping out the previous eight years' growth), despite over £100 billion of additional government support. The squeeze on real incomes, rise in interest rates, and fall in house prices all weigh on consumption and investment, tipping the economy into a recession lasting just over a year from the third quarter of 2022, with a peak-to-trough fall in GDP of 2 per cent. Unemployment rises by 505,000 from 3.5 per cent to peak at 4.9 per cent in the third quarter of 2024.

Inflation is expected to drop sharply over the course of next year and is dragged below zero in the middle of the decade by falling energy and food prices before returning to its 2 per cent target in 2027, as is projected in Figure 3 below. The resulting recovery in real incomes, consumption, and investment sees GDP return to growth in 2024 and output recover its pre-pandemic level in the fourth quarter of that year.

Figure 3



Higher borrowing pushes underlying debt (excluding the Bank of England) up sharply, from 84.3 per cent of GDP last year to a 63-year high of 97.6 per cent in 2025-26. Tax rises, spending cuts and a pick-up in GDP growth are then sufficient for it to fall modestly in 2026-27 and 2027-28. The Government's two legislated fiscal targets to balance the current budget and get underlying debt falling in 2025-26 are on course to be missed by £8.7 billion and £11.4 billion respectively.

Given the scale of the energy shock and the recession it has induced, the Government has announced new targets: to get borrowing below 3 per cent of GDP and underlying debt falling in five years' time, which it achieves, respectively, with £18.6 billion and £9.2 billion to spare. But the near tripling of interest rates since March means the share of revenues consumed by servicing that debt rises from under 5 per cent in 2019-20 to 8½ per cent in 2027-28, leaving the public finances more vulnerable to future shocks or swings in market sentiment.

UK Government's Autumn Statement : Implications for Wales

As part of the Autumn Statement on 17 November, the UK government announced additional departmental spending on the NHS, social care, and schools in England – the first top-ups to spending plans since the Spending Review in October 2021 It also announced business support measures through the Business Rates system in England. This triggered consequential funding for the Welsh Government worth £1.2 billion in 2023-24 and 2024-25.

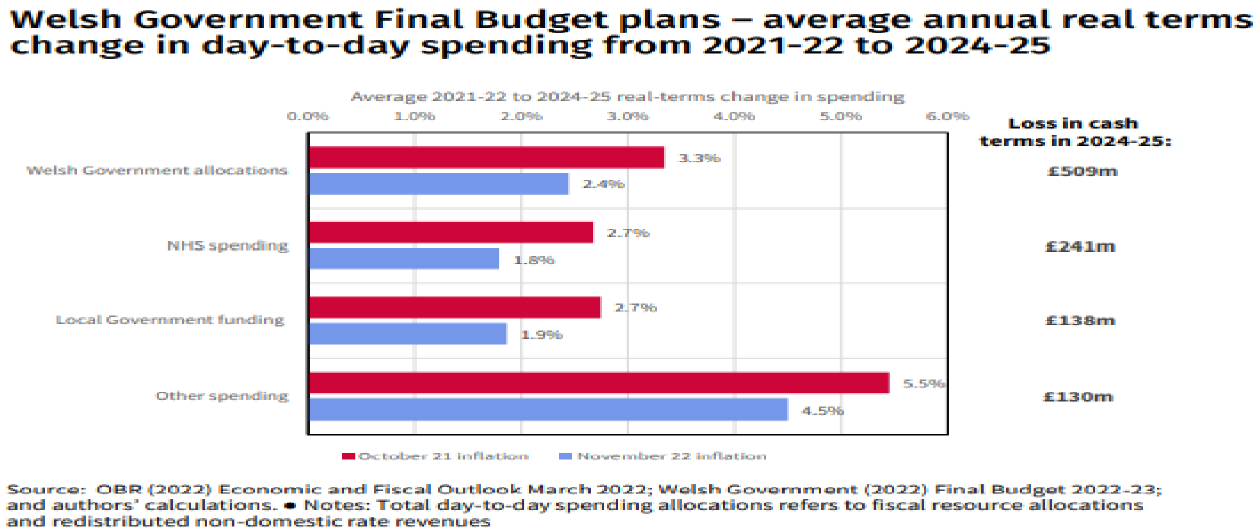
Unforeseen higher inflation has significantly eroded the real terms value of the Welsh Government's plans for day-to-day spending from 2022−23 to 2024−25. Additional UK government funding announced at the Autumn Statement will allow the Welsh Government to top-up its spending plans at the Draft Budget for 2023−24 and support businesses through the Non-Domestic Rates system. However, even after these additional allocations, the losses from higher inflation since budgets were set last year could amount to approximately £800 million in 2023−24 and £600 million in 2024−25.

Estimated funding for day-to-day spending would increase by 1.2% per year in real terms from 2024−25 to 2027−28 after the UK government pencilled in slower growth in departmental spending following the current Spending Review period. This could imply cuts to non-NHS spending averaging 0.5% per year in real terms.

Beyond the end of the spending review period, public service spending is growing less quickly than previously planned (about £21.5 billion of fiscal tightening), also capital spending is cut in real terms after 2025 (£14.8 billion of tightening).

Using October 2021 inflation forecasts, the implied average real-terms growth over three years is 3.3% for WG, and for local authorities 2.7%, Higher inflation (as measured by the GDP deflator) suggests that falls to 2.4% in real terms, as set out in Figure 4 below.

Figure 4



Welsh Government's Budget and Outlook

The Welsh Government was provided with expenditure limits for 2022-23 to 2024-25 following the UK Government's Spending Review in Autumn 2021. These limits were reflected in the Welsh Government's Final Budget for 2022-23 alongside indicative spending plans for 2023-24 and 2024-25, which were published in March 2022. The UK Government's recent Autumn Statement provided additional revenue of £666m in 2023-24 and £509m in 2024-25. The limits for the Welsh Government Resource Departmental Expenditure Limit (DEL) are now £18,916m and £19,152m for 2023-24 and 2024-25 respectively, before block grant adjustments. The Capital DEL did not change as a result of the Autumn Statement, remaining at £2,610m and £2,594m in 2023-24 and 2024-25 respectively. This also contains ring-fenced amounts of £96m and £90m for Financial Transactions. This provides a constrained outlook for capital, with the budget in 2024-25 8% lower in real terms than in 2022-23.

Even with the additional resource funding outlined above, the high levels of inflation currently being experienced mean the Welsh Government's settlement is now worth less in real terms than when the spending envelopes were set. Depending on the inflation measure used, the settlement could be worth up to £3bn less in real terms over the three years covered by the Spending Review and £1bn less in 2023-24 alone.

As a result of decisions announced in the Chancellor's Autumn Statement, the UK Government provided £1.2bn of additional funding to the Welsh Government over the next two years. Despite that, the Welsh Government's budget for day to day spending will only increase by 0.4% a year per person in real terms over the two years, on a like for like basis.

Welsh Government recognise and value public services and the important role they play in local communities as a source of support, help and employment. Through the draft budget they continue to invest in public services to support them through these hard times and will make additional funding available to the NHS, to local government and to education to help protect frontline services

The additional funding provided to Welsh Government in the Autumn Statement is being provided in full to local government through increases to the unhypothecated settlement and through the education budget. WG are providing an additional £227m in 2023-24 and £268m in 2024-25 to the local government settlement; this builds on the funding outlined as part of the 2022 Spending Review, now providing £1bn up to 2024-25.

The Welsh Government and Plaid Cymru December 2021 Co-operation agreement pledges to review Council Tax reform in Wales during the next three years. Clearly, from a financial planning perspective, this is an area that will be kept under close review.

The Local Government Revenue Settlement

The Local Government Revenue Settlement comprises Revenue Support Grant (RSG) and redistributed National Non-Domestic Rates (NNDR) revenues and is known as Aggregated External Finance (AEF). In 2023-24, local authorities will receive £5.5 billion from the Welsh Government (WG) in RSG and NDR to spend on delivering key services.

WG continue with their commitment to local government being at the frontline of delivering a wide range of vital public services. Recognising that Local Authorities have been affected by the soaring cost of energy and inflation across all services, including in two of their biggest service areas: schools and social care. This is alongside overall increases in demand in many service areas.

Schools in Wales are directly funded by local authorities; funding for schools is provided mainly through the local government settlement. The Welsh Government's education budget also supports spending in and on schools, teachers and wider education programmes, including free school meals, the rollout of the new curriculum, teacher training and support to help learners recover post pandemic.

The additional consequential in the Autumn Statement is being provided in full to local government through increases to the unhypothecated settlement and through the education budget. The funding provided through this Settlement will therefore cover the costs arising from the 2023/24 pay deal which fall within the 2023-24 Settlement year. WG have again taken the decision to provide all the available funding up front and not hold back funding for in-year recognition of the 2023/24 teachers' pay deal. Authorities' budget planning must therefore accommodate these costs.

Welsh Government recognises that social care plays a vital role in Wales, supporting people to live independent lives in the community while also supporting the wider health service. Without effective social care, the NHS' ability to function effectively will be swiftly diminished. The demand for social care has increased rapidly and the sector is under intense pressure, as it struggles to recruit and retain staff.

In April 2022, Welsh Government provided funding to enable the Council to be able to pay the Real Living Wage for social care workers. To maintain this WG makes a recurrent provision of £70m to meet the Real Living Wage for social care workers, within the allocations to the health and social care budget and the local government settlement.

For Education, in addition to the funding being providing for schools via the local government settlement, WG are allocating an extra £10m for schools via the Education budget in 2023-24. This is made up of an additional £5.5m to support the continuation of the Recruit, Recover and Raise Standards (RRRS) programme in line with the Programme for Government commitment; and a further £4.5m to support implementation of the Additional Learning Needs (Wales) Act as part of the long-term programme of education reform. There will also be an additional £9m to support post-16 provision, including a review of Renew and Reform funding and other distinct pressures for school sixth form and FE sector.

The Welsh Government remains committed to people in Wales having access to a decent place to live. Funding for housing and homelessness continues to be an area of priority investment, which protects the most vulnerable in society. £10m is allocated to the homelessness prevention budget to boost investment in homelessness prevention and relief interventions across Wales providing support for local authorities to continue our 'no-one left out' approach.

Businesses and other ratepayers in Wales are supported with a package of non-domestic rates support worth more than £460m over the next two financial years. The approach taken in previous years is maintained with the freezing of the non-domestic rates multiplier for 2023-24. This ensures there will again be no inflationary increase in the amount of rates businesses and other ratepayers are paying.

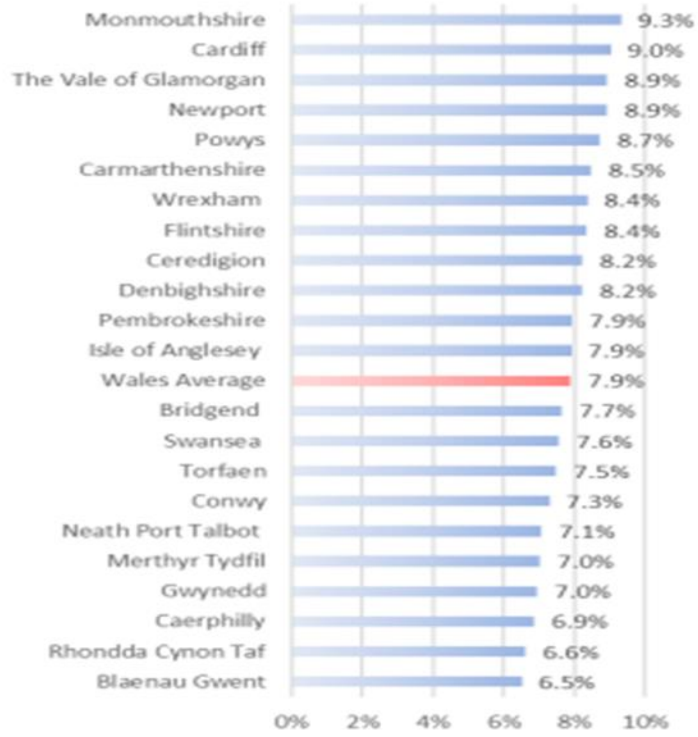
WG are also introducing a £113m, fully funded, transitional relief for all ratepayers whose bills increase by more than £300 following the UK-wide revaluation exercise, which takes effect on 1 April 2023.

Finally, the NDR support package also provides over £140m of non-domestic rates relief for retail, leisure, and hospitality businesses in Wales. Eligible ratepayers will receive 75% non-domestic rates relief for the duration of 2023-24, capped at £110,000 per business across Wales.

The Graph at Figure 5 below shows changes to the AEF across the Local Authorities in Wales between 2022/23 and 23/24. The average increase is 7.9% driven by the funding formula. This is largely a reflection of data movements in pupil numbers and free school meal entitlement derived from the schools' census, as well as the impact of the decennial Census on the population counts/estimates.

The graph confirms that funding in Powys has increased by 8.7% after adjusting for transfers, this equates to an additional £18.298 million for next year.

Figure 5



Welsh Government have also provided the indicative Wales-level core revenue funding allocation for 2024-25 is £5.69 billion, equating to an uplift of £169 million (3.1%). As Powys is receiving uplifts along the line of the average settlement or above, this uplift has been used in the FRM, with 2% for the final two years.

2.4 <u>Local Context</u>

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 because 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 updated Rural Cost Analysis (link to follow) 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.

Uncertainty around funding continues and in order to manage this uncertainty revised modelling continues to be based on a number of scenarios with a 2%, 0% and -2% uplift as well as the 3.1% provided as indicative funding for 2024/25.

On the current modelling, to deliver a balanced annual budget between April 2023 and 2028 the Council will need to reduce its spending by more than £19.5 million in addition to the assumption to increase council tax by 5% each year. This will be achieved through transformational change and cost efficiencies but reductions in some services offered will also be inevitable.

Since 2012, £109 million has been achieved through reduced spending as a response to cuts in government funding and the need to meet inescapable additional costs. There has been a reduction in staffing of 11% and there are 557 less FTE’s. This coincided with a period of challenging financial settlements, including negative (i.e., cash reduction) settlements which has had a lasting impact. It is more challenging to continue to deliver savings over the medium term, even though savings requirements are still required to support the demand and price pressures. In the last five years alone, the largest budgets in the Council increased by £22.4 million as seen at Figure 6 due to demographic demand and inflationary pressures.

Figure 6: Budget Changes

	Net Budget - £			
	2018/19	**2022/23**	**Change**	**%**
Childrens	18,842,414	27,899,704	9,057,290	48.07%
Adults	64,038,521	73,864,171	9,825,650	15.34%
Education	93,356,950	96,830,257	3,473,307	3.72%
	176,237,885	198,594,132	22,356,247	12.69%

3. Medium Term Financial Plan

3.1 Five Year Projections

Based on the modelling assumptions (settlement 8.7% reducing to 3.1% and then 2% for the follow three years), the five-year financial projection is summarised at Figure 7, with the detailed Financial Resource Model (FRM) shown at Appendix A.

Figure 7: Five Year Summary

	2023/24	2024/25	2025/26	2026/27	2027/28	Cumulative
	£'000	£'000	£'000	£'000	£'000	£'000
FRM Net Exp	326,554	348,854	363,948	378,648	393,967	
Current Year Budget	301,872	326,554	348,854	363,948	378,648	
GAP - each year	**24,682**	**22,300**	**15,093**	**14,701**	**15,319**	
Additional Funding						
Council Tax increase - 5% and tax base	-6,384	-4,898	-5,143	-5,400	-5,670	-27,494
Settlement (8.7%, 3.1%, 2% then on)	-18,298	-7,080	-4,709	-4,804	-4,900	-39,791
Net Gap - Each Year	**0**	**10,322**	**5,241**	**4,497**	**4,749**	**24,810**

3.2 The FRM and Cost Assumptions

Figure 8 provides the summary position by service for 2023-24.

Figure 8 2023-24 Service Budgets

£'000	Base Budget	Pay Award 2022/23	Pay Award 2023-24	Non Pay 2023-24	Demography	Pressures	Covid Pressures	Savings	Adjustment	2022/23 Undelivered Savings	Request 2023/24	Variance	% Increase
Delegated	79,491	1,114	2,725	3,879	-185	1,573		(864)	(3,846)	0	83,886	4,395	5.5%
Education	17,329	274	451	87		1,139		(830)		0	18,450	1,121	6.5%
HTR	29,669	829	701	1,940		2,403		(2,797)		0	32,744	3,075	10.4%
H&CD	5,417	304	255	456	0	1,557		(379)		0	7,611	2,194	40.5%
PPPP	5,913	242	199	768		321		(793)		75	6,725	812	13.7%
ASC Commission	3,647	139	97	18		0		(97)		0	3,805	158	4.3%
ASC	73,938	652	596	154	491	8,260	980	(4,768)		0	80,303	6,365	8.6%
Children	27,897	504	466	77	0	2,201	0	(2,796)		1,278	29,626	1,729	6.2%
Finance	6,258	190	167	68		89		(73)		0	6,699	441	7.0%
Transf/Comm	1,461	67	53	2		0		(8)		0	1,576	115	7.8%
WOD	2,399	95	89	9		103		(12)		0	2,683	284	11.9%
Digital	6,312	184	146	69		368		(24)		166	7,220	908	14.4%
Legal	3,561	124	110	7		45		(2)		32	3,877	316	8.9%
Corp	38,580	32	80	13		5,648		(3,003)		0	41,350	2,770	7.2%
Total	**301,872**	**4,750**	**6,135**	**7,547**	**306**	**23,705**	**980**	**(16,446)**	**(3,846)**	**1,550**	**326,554**	**24,682**	8.2%

Employee Costs – At this time pay awards for 2022/23 have now been agreed, with NJC employees all received £1,925 regardless of grade. Teachers have been awarded 5% with increases to TLR for those part time staff. These assumptions will require an additional £4.7 million to fund the base budget gap. The FRM in 2023/24 pay assumptions are that NJC will increase by 5% and Teachers 3.5%, then 2% then on . The service budgets hold £6.1 million with an additional £2.9 million held centrally.

Pension Costs – Powys Pension Fund's actuarial review will be finalised in March 2023; however the majority of the review has been completed and the Council will see a reduction in its contribution rates, this change is now reflected in the Councils Budget Plan with a saving of £1.7 million now proposed. There are no expected changes to the Teacher Pension Scheme.

Redundancy Costs – The Council has an annual base budget set aside to meet the costs of any transformation redundancies. Services must manage other redundancies within base budget.

Price Inflation – 2% inflation has been factored in across all services for each year, with exceptional increases in:

- Utilities - Electricity by 145% and Gas by 283%, an estimated increase of £5.8 million (including schools)
- Fuel – this has increased by 32% which amounts to an additional cost of £463k
- Food – overall average food costs have gone up by 10% amounting to £176k

Utility prices are being kept under review for this and the next two years. Currently the gas wholesale commodity market is experiencing unprecedented increase in prices due to shifts in global demand, uncertainty surrounding future supply to Europe (partly due to the war in Ukraine), and poor electricity production from renewables.

CPI Inflation currently stands at 10.7% and is expected to rise further before reducing gradually over the next two years, this will impact on many supplier contracts that are linked to CPI / RPI. Where known, these increases are being added as pressures into the FRM.

Capital Financing Costs – Required to achieve the Capital and Treasury Management Strategy, reflects the five-year capital programme and the cost of commitments made in previous years. The capital programme assumptions are:

- Supports Schools Transformation as part of 21st Century schools and building social housing
- Ongoing support to highways improvements
- Delivering the asset management plan to secure capital receipts for future investment
- Borrowing is assumed at 4.2% in 2023/24 and is expected to fall slightly in the following years, although this may need to be raised depending on future bank rates
- One pool of debt for both the General Fund and HRA
- Continue to remain under borrowed and utilise cashflow before committing to long term borrowing
- Borrowing to cover the future capital programme costs will be considered against the cost of carry.

- That the capital expenditure plans of the council remain affordable, prudent and sustainable.

Levies – The council is required to provide funding to support both the Mid and West Wales Fire Authority (MAWWFRA) and the Brecon Beacons National Park via a levy. The Chief Fire Officer has served formal notice that the estimated net revenue budget requirement for the Mid and West Wales Fire and Rescue Authority for the 2023-24 financial year is £60,821,000. In addition it is now expected that 2 former grants are no longer being provided directly to the Fire Authority and the value of these will increase the budget requirement to be levied to £63,257,200 an overall increase of 17.53%. For Powys, the Councils budget includes an estimate of £9,166,841 for 2023-24, an increase of £1,355,336 (17.35%) from that provided last year. This amount is funded in part through the local government settlement with the remainder being met from Council Tax.

Apprenticeship Levy - The Apprenticeship Levy is a government levy payable by larger employers at 0.5% of annual pay bill. As our pay bill is set to increase, we will have to make a greater contribution into the levy next year.

Demographic Pressures – these have been estimated over the next five years

- Adults – numbers are based on those learning disability clients already in the system, mainly from transitioning from children to adult services, a net increase of £0.5 million assumes increased cost of activity.
- Childrens – next year the service proposes to manage demography through the risk budget
- Schools – Pupil number projections show a small decrease in primary and increase in secondary pupils, with a reduction of £185k factored in next year.

Council Tax Reduction Scheme - This budget reflects the payment of Council Tax Support to eligible recipients. At over £11.5 million, future demand on this budget is a key consideration in medium term planning. The impact of the pandemic, rising inflation and an economic recession now being projected will all impact on the number of eligible claimants. Any changes to Council Tax levels also impact on this budget. In recognition of this, within the MTFP, modelled council tax increases are shown net of their impact on CTRS.

COVID - The pandemic had a significant impact on the council and our financial position in previous financial years. The Welsh Government put in place a COVID-19 Hardship Fund to support Local Authorities with additional costs and income loss directly resulting from the pandemic. During the financial years 2020/21 and 2021/22, we received £32 million support from the fund. This direct funding to support the financial impact of the pandemic ceased on 31st March 2022 and we are now managing these costs and lost income within our Revenue Budget from 2022/23. This year we have supported services with £1.7 million from the funding that we set aside thus far this year. We must clearly understand how the pandemic could continue to impact on our services, our costs and our levels of income into 2023/24 and beyond and factor this into our plans.

3.3 Funding and other Support

The Council's budget reflects the totality of the Council's costs including salaries and wages, the purchase of goods and services, premises costs and the revenue cost of financing our capital programme. The budget is financed by all the Council's income sources including AEF, council tax, fees and charges, specific grants and contributions from other bodies.

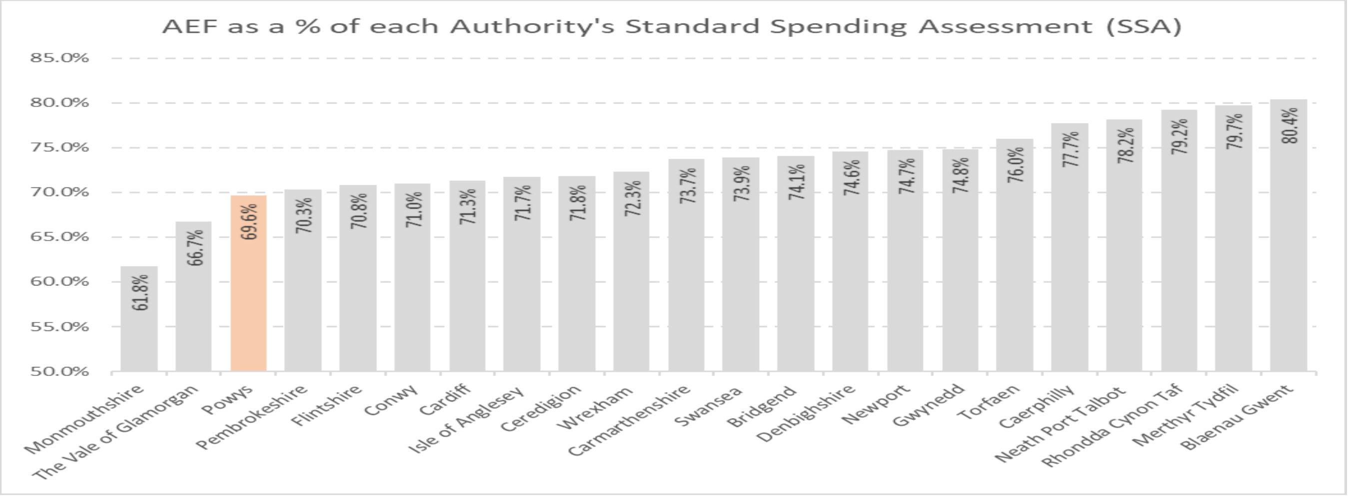
The financing of the net budget comes from the Welsh Government settlement and gross Council Tax income. Figure 9 below summarises the current assumptions.

Figure 9

	2023/24	2024/25	2025/26	2026/27	2027/28	Cumulative
	£'000	£'000	£'000	£'000	£'000	£'000
Council Tax increase - 5% and tax base increase	- 6,384,046	- 4,897,801	- 5,142,692	- 5,399,826	- 5,669,817	- 27,494,183
Settlement (8.7%, 3.1%, 2% then on)	- 18,298,015	- 7,080,034	- 4,709,365	- 4,803,552	- 4,899,623	- 39,790,590
Total Funding	**- 24,682,062**	**- 11,977,836**	**- 9,852,056**	**- 10,203,378**	**- 10,569,441**	**- 67,284,773**

Council Tax - Council Tax represents around 30.4% 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).

Figure 10: AEF as a percentage of SSA



The ‘gearing effect’ for example to raise overall income by 1%, council tax would have to increase by over 3% as it is 1/3rd of total income. If we wanted to increase net budget by 1%, £3 million, this would mean an increase of just over 3%. In our FRM, we are modelling 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. Figure 11 indicates the additional permanent funding from Council Tax increases ranging from 1% to 10%.

Figure 11: Council Tax Funding

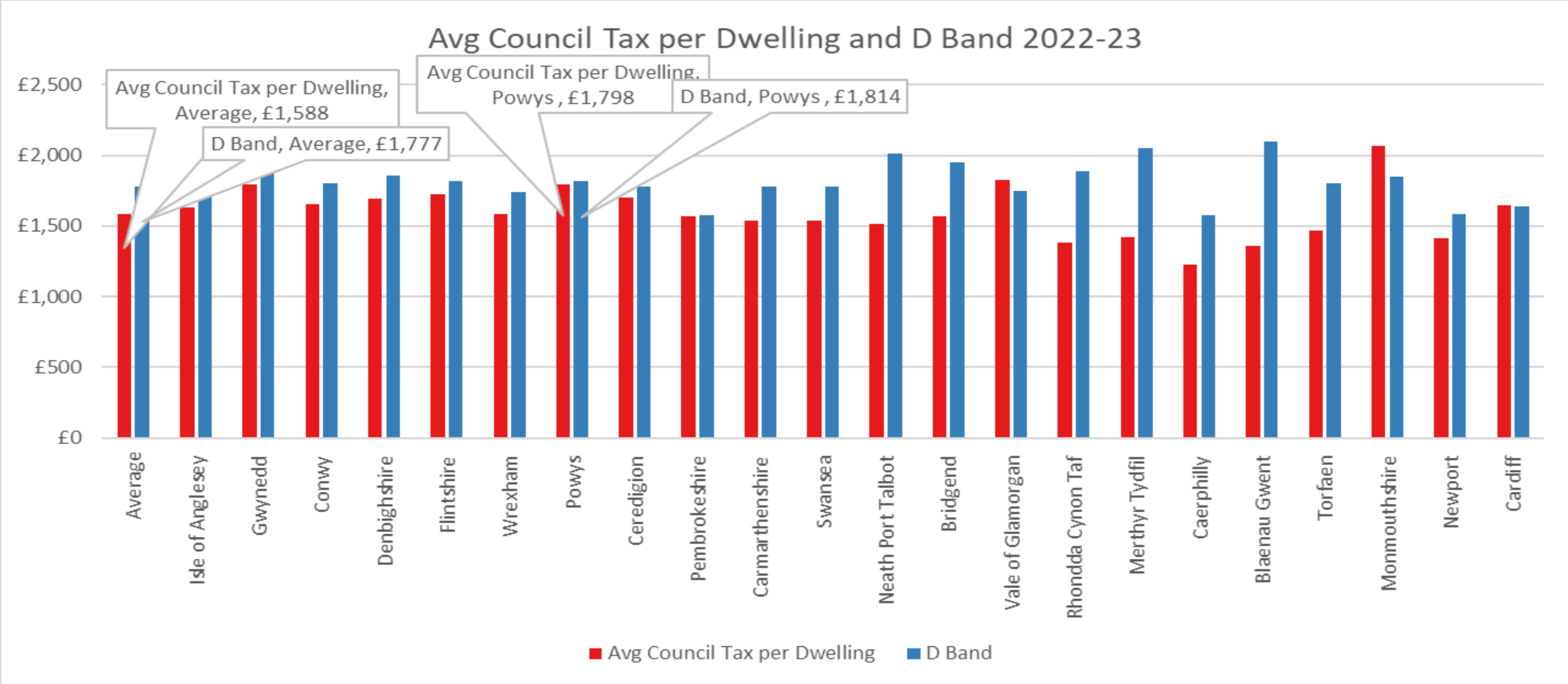
2023/24							
% Change Council Tax	1.00%	2.00%	3.00%	4.00%	5.00%	7.00%	10.00%
£'000	£916	£1,832	£2,748	£3,664	£4,580	£6,412	£9,160
Council Tax Less CTRS	£815	£1,631	£2,446	£3,261	£4,076	£5,707	£8,153

Council Tax income comes from residents but not all residents pay full Council Tax. Around 48% of Powys’ 65,000 households pay the full amount, while just over 52% would receive partial or total exemption from payment.

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. This balance will be even more difficult this year due to the high level of inflation falling both on our residents and the Council.

Average council tax per dwelling in Powys for 2022-23 was the 4th highest in Wales, this is particularly sensitive in a county with one of the lowest average wage levels in Wales. Figure 12 compares Powys against Welsh Local Authorities in terms of council tax average cost per dwelling and the Band D average (these figures include all precepts).

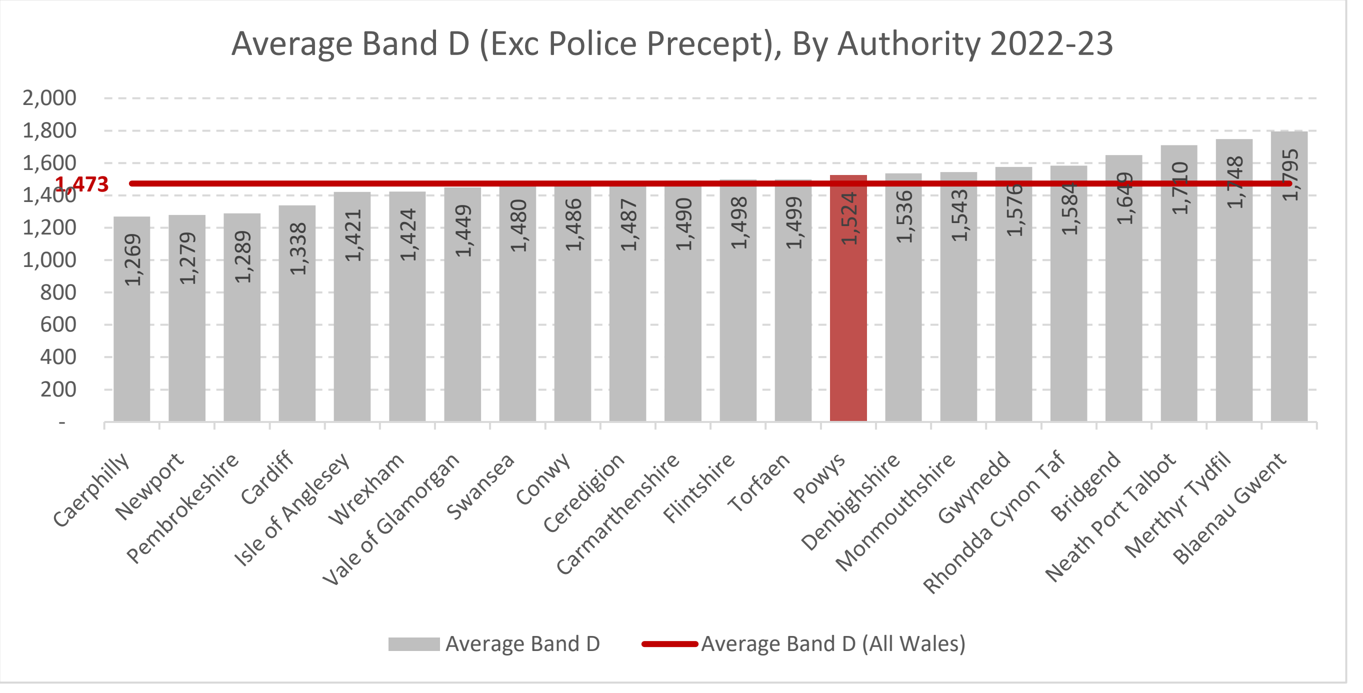
Figure 12: Average Council Tax per Dwelling



For 2022-23, the average annual Council tax bill for a Band D property in Powys was £1,814 (including community council and police precept). This is above the Wales average for Band D properties of £1,777.

Figure 13 shows the Band D Council Tax level for each of the local authorities in Wales (excluding all precepts)

Figure 13: Average Band D by Authority



Council Tax collection rate for 2021-22 was 97.30% (0.3% increase on previous year) which compares with an average of 96.3% for all unitary authorities in Wales. The highest collection rate in Wales for 2021/22 was 98.0%

Council Tax premiums are applied to periodically occupied and empty properties. Currently the premium is set at 50% for both categories. Following a Cabinet decision in February 2022 the premium applied to Properties that are periodically occupied will be increased from 50% to 75% from April 2023. This increase may generate additional income for the council, but the level is uncertain due to the options available, for example, if owners choose to transfer to Business Rates or occupy or sell their property moving it out of the premium and reducing council tax collected. Cabinet has recently approved an increase to the long-term empty premium from 50% to 100% effective from 1 April 2023.

Fees and Charges - Income from fees and charges makes a significant contribution (£74 million per annum) to the Council's budget and the Council's approach to income generation is set out the Councils Income Policy, fees and charges will be reviewed in line with this policy will be presented in the updated Fees and Charges Register, which will be presented with the budget papers annually for approval. The council's policy is based on the principle of full cost recovery and inflationary uplifts will be considered to ensure that the Council can continue to recover its costs for the services it provides.

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 will receive around £55 million of grant funding next 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. This creates uncertainty and risk within financial planning.

Budget Reductions – The following strategies will continue to be used to address the gap where feasible: -

- The transformation of service provision.
- Improved efficiency and a "Right First Time" ethos.
- Undertaking service reviews using the information to change
- Identification of investment opportunities and income.
- Capital Programme – reviewed, opportunity to invest.
- Cross Cutting Themes.
- 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 capital investment.

When considering how we transform our services the following principles will apply: -

- 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).

Reserves - In the interests of financial resilience, reserves should not be relied upon as general budget funding. This is because:

- It creates a gap in the finances of the following year as reserves are cash sums.
- Earmarked reserves are set aside for a particular purpose.
- Reserves are an important part of financial resilience, providing a cash buffer.
- Cash in reserves is not idle; it generates investment income in line with the Treasury Management Strategy and avoids the need for short-term borrowing.

4. Risk and Sensitivity Analysis

4.1 Sensitivity Analysis

The MTFS is prepared using the best inflation at this point in time, but as a working document will continue to be updated through until the budget is agreed in February 2023. The volatile economic environment affecting inflation and prices and demands on services means further modelling will take place. The impact of a 1% change on headline figures is shown at Figure 14.

Figure 14

Modelling and impact of changes - £	1%	2%	3%
Council Tax (before CTRS)	- 915,720	- 1,831,440	- 2,747,160
WG Settlement	- 2,102,610	- 4,205,219	- 6,307,829
Pay (Teachers)	570,894	1,141,788	1,712,682
Pay (NJC)	1,073,167	2,146,334	3,219,501
Non-Pay (excluding utilities)	1,083,070	2,166,140	3,249,210

Figure 15 provides the most recent modelling based on the known funding next year of 8.7% and 3.1|% the following year, with the future funding expectations from 2% to a worst-case scenario of -2%. The cumulative gap is shown between £19.9 million and £48.1 million.

Figure 15

	2023/24	2024/25	2025/26	2026/27	2027/28	Cumulative
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
FRM Net Exp	326,554	348,854	363,948	378,648	393,967	
Current Year Budget	301,872	326,554	348,854	363,948	378,648	
GAP - each year	**24,682**	**22,300**	**15,093**	**14,701**	**15,319**	
Additional Funding						
Council Tax increase - 5% and tax base	-6,384	-4,898	-5,143	-5,400	-5,670	
Settlement (8.7%, 3.1%, 2% then on)	-18,298	-7,080	-4,709	-4,804	-4,900	
Net Gap - Each Year	**0**	**10,322**	**5,241**	**4,497**	**4,749**	**24,810**
Additional Funding						
Council Tax increase - 5% yr 1, 5% the	-6,384	-4,898	-5,143	-5,400	-5,670	
Settlement 8.7%, 3.1%, 0%,	-18,298	-7,080	0	0	0	
Net Gap / (surplus)	**0**	**10,322**	**9,951**	**9,301**	**9,649**	**39,223**
Additional Funding						
Council Tax increase - 5% yr 1, 5% the	-6,384	-4,898	-5,143	-5,400	-5,670	
Settlement 8.7%, 3.1%, -2,	-18,298	-7,080	4,713	4,619	4,526	
Net Gap / (surplus)	**0**	**10,322**	**14,664**	**13,920**	**14,175**	**53,080**

In previous years' service demography risk has been supported by identified reserves, as this is an estimate of increase rather than a precise figure, in addition this demand occurs throughout the year and only needs part year funding.

Adult Social Care demographics are based on a percentage increase for the 75-79 age group, based on current average packages and equates to one Residential/Nursing placement and one Domiciliary Care package per shire per month, net of any client income. In addition, Learning Disabilities Transitions are based on a known list of service users attaining age of eighteen and the likely placement for their care. £1.4 million has been estimated for next year, this could increase or decrease depending on demand.

Childrens services have assumed an additional 59 Children Looked After totaling £1.2 million, these are new placements and assumed at the usual foster care rates.

4.2 Funding the Uncertainty

Availability of 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 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. In the main reserves are held corporately rather than service based, except where specific reserves and their use have been agreed.

The reserves held must be at an appropriate level to mitigate this risk and any unexpected events that may arise: -

- 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 because of several claims above our excess.

As has been previously explained, reserves use is not a long-term solution to addressing general budget recurrent problems such as increasing costs. But in the short-term reserves may be a mechanism to address demand and price risk. It is estimated that up to £7 million will be used from specific reserves in 2022/34 to support post Covid pressures and the inflation demands, but as these are now in part becoming recurrent issues, they should be addressed through the FRM. Reserve use to support initiatives to deliver recurrent savings may be needed to smooth over the transition process.

Figure 16: Usable Reserves (excluding the £7 million anticipated use)

Summary	Opening Balance (1st April 22) Surplus / (Deficit)	Forecast Addition / (Use) of Reserves	Projected Balance (31st March 23) Surplus/ (Deficit)
General Fund	9,333	-	9,333
Budget Management Reserve	3,584	- 1,748	1,836
Specific Reserves	29,167	- 9,920	19,247
Transport & Equipment Funding Rese	8,843	- 2,080	6,763
Total Usable Reserves	**50,927**	**- 13,748**	**37,179**
Schools Delegated Reserves	8,982	- 93	8,889
School Loans & Other Items	- 371	7	- 364
Housing Revenue Account	4,244	- 145	4,099
Total Ring Fenced Reserve	**12,855**	**- 231**	**12,624**
Total	**63,782**	**- 13,979**	**49,803**

4.3 Risk Management Framework

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 Corporate Plan 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 can 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.

4.4 Key Risks

a. Budget Delivery Risks

Change Delivery Capacity - sufficient capacity and resource to deliver and implement change projects

Delivery of Cost Reductions - The level of cost reductions required in 2023/24 is significant at £16.4 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 monthly. 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.

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.

Demand - rising demand, particularly post covid has been seen within Social Care and ALN services, modelling future demand is complex and any sensitivity analysis can have high value for small numbers of service users.

Economic Impact – Inflation: increasing costs and pressures for increasing pay awards. Interest Rates : increasing the cost of borrowing and impact on affordability of the Capital Programme.

COVID – Continuing impact of the pandemic, additional costs in response to ongoing measures and impact, Provider and supplier viability, impact on demand

b. Funding Risks

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.

Grants – we rely on specific grants to support core activity, if these cease, we have to address the implications. Continued rising inflation will erode the value of the funding provided.

Income - The budget is supported by 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.

Debt recovery – Cost of living crisis impact on residents, impacting on their ability to pay council fees and Council Tax.

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 daily. 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.

c. Mitigation, Review and Monitoring

Monitoring and Managing Risk - 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

5. Resilience

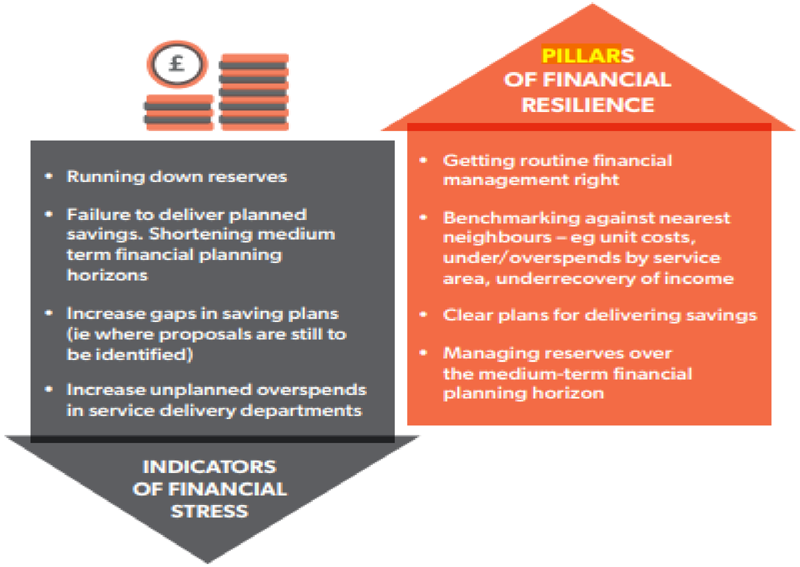
5.1 Financial Resilience

The Council continues to put financial resilience at the forefront of its financial activities and draws upon the support from Audit Wales who undertake regular pan Wales assessments on councils' financial sustainability. In 2021 an assessment concludes the financial sustainability assessment work during 2020-21 and identified that financial sustainability was a key risk to councils' arrangements before the pandemic occurred. The focus of their report included arrangements to secure value for money in the use of resources and the general trend of decreasing resources for local government combined with rising demand for some services.

The findings of the Powys Financial Sustainability review published in July 2021 set out three proposals for improvements - addressing the medium-term budget gap, ensuring that the ambitious capital strategy is affordable and continues to ensure that it monitors whether its budget planning processes are having the desired effect and helping to prevent significant overspends in key service areas. The delivery of these is monitored through the Regulatory Tracker.

The Council draws upon CIPFA's pillars of financial resilience and indicators of financial stress (Figure 17) as a framework for improvement within its Finance Transformation plan. Symptoms of stress and pillars of resilience are shown in the diagram below:

Figure 17 CIPFA Pillars of Financial Resilience



Significant progress has been made to improve financial resilience and is evidenced in the Audit Wales review and documented as part of our Financial Management (FM) Code Assessment. One of the key areas covered by the Code is medium to longer term financial management, with the MTFP being an important factor in this regard. The code emphasises that a robust MTFS should have clear links to Service Plans and Capital Strategy. It should also contain a sound assessment of drivers of cost and demand, with associated sensitivity analysis.