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COUNTY COUNCIL
Thursday, 24th February, 2022

The use of Welsh by participants is welcomed. If you wish to use Welsh please inform us by noon, two working days before the meeting

S U P P L E M E N T A R Y P A C K

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| 1. | MEDIUM-TERM FINANCIAL STRATEGY 2022-2027 AND 2022-23
BUDGET AND CAPITAL PROGRAMME FOR 2022-2027 |
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Motion to amend the Budget – with Finance Resource Model attached

Proposer Councillor Aled Davies

Seconder Councillor Phyl Davies

Motion to amend the Budget

Proposer Councillor David Thomas

Seconder Councillor David Selby

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Motion to amend the Budget

Proposer Councillor Aled Davies

Seconder Councillor Phyl Davies

Since Cabinet approved and proposed the Revenue Budget and Capital Strategy to Council the Council has received unexpected additional funding from Welsh Government. Much of the funding provided has to be used for specific purposes but some allocations are unhypothecated and will improve the financial position of the Council for the current 2021/22 financial year.

These funds are one off and cannot be used to meet ongoing recurring costs, however by using these funds to meet Capital Costs it will reduce the Councils need to borrow and make a saving against the revenue budget.

We have also received an additional Capital allocation of £3.6 million that we were not anticipating.

The use of these funds to meet Capital expenditure enables the Council to reduce its budget requirement for 2022/23, the budget is funded by the Welsh Government settlement and Council Tax so with a lower budget requirement we are able to reduce the level of Council Tax we needed to raise through the 3.9% increase.

Our aim is to deliver value for money for our residents and all times keep Council Tax as low as possible. Especially in these times where we see the cost of living increasing significantly. But we also have to ensure that the frontline services we provide are available to meet the ongoing needs of our residents. This is always a difficult balance to achieve.

It is therefore proposed that the additional funds provided by Welsh Government, Capital (£3.6m) and Revenue (£2.3m) , together with the projected underspend on MRP for 2021/22 (£1.5m) as highlighted in the Quarter 3 Budget monitoring report as presented to cabinet on the 22nd February 2022, be used to fund existing Capital schemes reducing the need to borrow for that purpose. and reducing the revenue required to fund that borrowing by £404K

The reduced borrowing releases Minimum Revenue Provision and External Interest budgets by £407K, and this saving can be used to reduce the Council Tax increase from 3.9% to 3.39% and still maintain a balanced budget.

Proposed amendment – to replace Recommendation 2 as follows

2.1 Council Approves the Revenue Budget for 2022-23 with the inclusion of a 3.39% increase in Council Tax in 2022-23 at a net cost of £404K with the Section 151 officer instructed to publish a revised Finance Resource Model (if required) as soon as possible.

2.2 The cost of recommendation 2.1 is financed by a reduction in the Minimum Revenue Budget/External Interest Budget of £404K.

Financial Assessment

The proposal would result in the following budget amendments

- A reduction in the Council Tax Income budget of £452K, netted off by an adjustment to the Council Tax Reduction Scheme Budget of £48K. A net Adjustment of £404K.
- A reduction in the Minimum Revenue Budget/External Interest Budget of £404K.

This does maintain a balanced budget for 2022/23. But does increase the budget gap in future years due to the Council Tax foregone. An updated FRM will be provided by the Head of Finance in due course.

Head of Finance (Section 151 Officer) comment

Ringfencing the additional surplus now projected for 2021/22 to replace borrowing planned within the Capital Programme in 2022/23 will reduce the budget requirement for MRP and Interest. Coupled with the additional Capital allocations provided by Welsh Government and the underspend on MRP in 2021/22 would see borrowing replaced by direct capital funding from revenue/reserves.

This would maintain the current Capital Programme as set out in the budget proposal, however this does mean that Council is foregoing the opportunity to set aside additional funding for future capital investment or increasing the Council reserves. Setting aside these funds would assist in reducing the level of risk being carried by the Council providing more flexibility in managing pressures, this year or in the future.

The use of these funds rather than borrowing will reduce the Capital Financing Requirement and the prudential indicators will improve to those that are set out in the Budget report and the Capital and Treasury Management Strategy. These are estimates and other factors will change these as we progress through the financial year as is the case in every year, these documents can therefore be considered as they stand today.

The proposed amendment is based on additional funding confirmed, but the surplus position is based on the Quarter 3 projected Outturn, a further forecast will be undertaken at the end of February 2022. That could see the projection improve or worsen. The final Outturn position will not be known until May 2022. In addition we do not yet know the full cost of responding to the recent storms and how that will impact on our Budget outturn, either directly or indirectly through insurance excesses. Nor do we know what funding will be forthcoming from WG if any to support these costs. The Emergency Financial Assistance Scheme has been in place in previous years, but we are notified annually if this remains the case and what our threshold is for the value the Council must exceed before being able to claim. These are general budget risks that were there before the additional funding was received.

The level of change proposed by the amendment does not therefore change the Section 151 Officers opinion to that expressed in the original report as set out below.

The Section 151 Officer concludes the estimates used in the amended budget proposal for 2022-23 remain adequately robust but a level of risk remains. Based on the assessment of reserves, the overall level is adequate but remains at the lower end of acceptability given the scale of savings required, the ongoing impact of the pandemic and the financial uncertainty facing the Council over the medium term.

The amended Finance Resource Model (FRM) is provided below.

FINANCE RESOURCE MODEL 2022-2027

	2022/23	2023/24	2024/25	2025/26	2026/27
	£000s	£000s	£000s	£000s	£000s
REVENUE INCOME					
Base Funding (Prior Year)	279,782	301,867	313,804	323,854	333,360
AEF (RSG & NNDR Allocation)	18,374	7,359	5,223	4,457	4,546
Council Tax	3,711	4,579	4,827	5,049	5,301
Total Projected Revenue Funding	301,867	313,804	323,854	333,360	343,207
REVENUE EXPENDITURE					
Base Budget (Prior Year)	279,782	301,867	316,968	330,502	344,053
General Inflation:	3,707	4,288	4,370	4,426	4,514
Total Demographic Pressures	676	1,590	1,677	1,714	1,753
Total Corporate and Service Specific Pressures:	22,131	10,863	8,612	7,888	7,717
Savings	-	8,075	(1,127)	(477)	(250)
Undelivered Savings previous years	1,317	0	0	0	0
Transformation	2,329	0	0	0	0
Total Projected Revenue Expenditure	301,867	316,968	330,501	344,053	357,788
Funding (Shortfall)/ Surplus - Cumulative	0	(3,163)	(6,646)	(10,693)	(14,581)
Funding (Shortfall)/ Surplus - In Year	0	(3,164)	(3,483)	(4,047)	(3,888)

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Amendment to the Budget:

We propose amending the proposals for Council Tax down to 0.1%.

We propose doing this by releasing the budget management reserve to fund the difference between 0.1% and 3.9%.

We will replenish the budget management reserve with the forecast underspend in 2021/22.

We also call for a cross party taskforce to be established with immediate effect to address the budget gap and cost pressures and provide an update to the MTFS as soon as possible.

Proposer: David Thomas

Secunder: David Selby

The impact of the proposal – Assessment and Advice by Section 151 Officer

To change the Council Tax Increase from 3.9% to 0.1% will reduce the Councils funding for 2022/23 by £3.034 million increasing the Net Budget requirement by the same.

The use of the Budget Management Reserve to replace the funding lost, £3.034 million, will maintain a balanced budget for 2022/23.

The receipt of additional funding in the last quarter of the financial year is now projected to deliver a surplus Outturn for 2021/22 and this surplus can be used to replenish the reserve which are proposed to be drawn, although there were a number of options to utilise this surplus including funding the capital programme.

The additional funding is confirmed, but the surplus position is based on the Quarter 3 projected Outturn, a further forecast will be undertaken at the end of February 2022. That could see the projection improve or worsen. The final Outturn position will not be known until May 2022.

Reserves/additional funding are a one off source of funding and will only bridge the budget gap for one year.

Using Reserves in this way goes against the principle in the Medium Term Financial Strategy - that one-off funding cannot be used to support recurring commitments, this is set out in Principle 5 of the Medium Term Financial Strategy "Reserves will not be used to fund recurrent budget pressures or to keep down Council Tax rises".

This balances the budget for one year but immediately creates a further significant gap in the budget plan for 2023/24, it more than doubles that gap to over £6.3m and increase the cumulative budget gap to an estimated £18.2m over the next 4 years.

In order to balance the budget over the longer term significant further reductions or large increases in Council Tax would be required. We already have an indication of the funding we are likely to receive from WG next year with settlement expected

much lower at 3.5% and, in the second year of 2.4%. In order to replace this reduction in Council tax, the Council would need to raise CT by over 7% in each of the next 4 years of the MTF5, but this does not close the original £15 million budget gap that already exists in our plan. Further increases in Council Tax above that level or reductions in our service provision would also be required. This will impact on all services of the Council, including Schools, Social Care, HTR, Planning and Regulatory services, as well as support services and will impact on the ability of the Council to continue with its Capital investment.

Whilst acknowledging the impact on our residents of a rise in Council Tax, Council must also consider the reliance of our residents on the services we provide, maintaining an appropriate level of service is essential, particularly to the most vulnerable in our communities.

Reserves are an essential part of managing the risk in our budget for next year. The level of risk on the Council's budget for next year is greater than we have seen in many years, we too are impacted by rising inflation and rising costs. We are seeing this year £22m of additional funding to reduce the level of reserves we hold which are at the lower end of acceptability significantly increase the financial risk for the Council. Both in terms of financial sustainability and our ability to maintain appropriate levels of service. The additional funding received if not utilised would further strengthen our financial position.

Audit Wales have also raised concerns in their assessment of the Council financial sustainability, "With the exception of the 2020-21 financial year, the Council's useable reserves have declined in recent years, and they are relatively low in relation to the net cost of services compared with other Welsh councils". They have also stressed that the Council needs to address the Medium Term budget gap.

On the basis of what I have set out above I strongly advise Council not to approve this proposal.

The updated FRM as a result of this proposal is provided below:

FINANCE RESOURCE MODEL 2022-2027

	2022/23	2023/24	2024/25	2025/26	2026/27
	£000s	£000s	£000s	£000s	£000s
REVENUE INCOME					
Base Funding (Prior Year)	279,782	298,930	310,722	320,619	329,964
AEF (RSG & NNDR Allocation)	18,374	7,359	5,223	4,457	4,546
Council Tax	774	4,433	4,674	4,888	5,133
Total Projected Revenue Funding	298,930	310,722	320,619	329,964	339,642
REVENUE EXPENDITURE					
Base Budget (Prior Year)	279,782	298,930	317,065	330,599	344,151
General Inflation:	3,707	4,288	4,370	4,426	4,514
Total Demographic Pressures	676	1,590	1,677	1,714	1,753
Total Corporate and Service Specific Pressures:	24,856	7,829	8,612	7,888	7,717
Savings	- 10,702	1,394	(1,127)	(477)	(250)
Undelivered Savings previous years	1,317	0	0	0	0
Transformation	2,329	0	0	0	0
Reserve Funding	- 3,034	+ 3,034			
Total Projected Revenue Expenditure	298,930	317,065	330,598	344,151	357,886
Funding (Shortfall)/ Surplus - Cumulative	0	(6,343)	(9,980)	(14,187)	(18,243)
Funding (Shortfall)/ Surplus - In Year	0	(6,343)	(3,636)	(4,207)	(4,057)

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