



# **Powys County Council's Medium Term Financial Strategy 2020 to 2025**



**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.

We continue to plan in challenging and uncertain times, and for the first time in a decade Powys has received a much welcome improvement in the funding that it receives from Welsh Government. This will 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 Cabinet has worked with the Welsh Local Government Association to highlight the financial pressures faced by Councils and the impact a decade of poor settlements has had on the services we provide for our residents.

In the Autumn we delivered a comprehensive document to Welsh Government Ministers "A Rural Cost Analysis of Powys" (<https://en.powys.gov.uk/article/7842/Funding-changes-needed>) which highlights the challenges we face in delivering services in the largest rural authority in Wales.

We were not asking for special treatment but for recognition that delivering services in Powys is far more costly than urban areas and we therefore need more funding to provide a level playing field.

Over the last decade the funding we received from central government has fallen by around 20 per cent as a result of austerity and changes to national spending priorities at a time when pressures, particularly within social care, have been increasing year on year.

The council has managed this reduction in spending power by reducing our overall spending by approximately £100 million per annum over the same period and having 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 across the county.

The combination of these factors, and continued uncertainty nationally around 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 case for transforming education provision across the County is now widely recognised. We have reached a point where we need to consider how we 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. In its recent inspection of the Council's Education Services Estyn expressed concern about the organisation of provision across Powys, challenging the authority to "ensure that the organisation of provisions of non-maintained, Post 16, Welsh medium and secondary education meets the needs of the children and young people

of Powys”. The council will set out a programme of reform that can deliver a high performing education system for all learners in Powys to strengthen our provision across the authority and plan an education service that can be a matter of pride to all who live in Powys.

This revised MTFS continues to see closer alignment between the policy framework and the way we plan to use our finances. This is supported by a new approach to allocating our resources which ensures that our limited resources are prioritised on securing outcomes that matter 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. By being open and enterprising this Council wants to work with partners and communities to deliver our vision.

In the last couple of years we have increased the pace of improvement within the Council. When measured against the other twenty one councils in Wales, using national indicators for 2018-19, Powys ranks 5<sup>th</sup> overall. We also now have a significant transformation programme in place which is starting to deliver at pace and will bring substantive benefits to our citizens and communities as well as to the way we work.

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

The Cabinet has a bold and ambitious programme to see Powys play a significant role in the region’s economy and the close collaboration with Ceredigion continues in order to gain a growth deal that will have a greater significance beyond the economic agenda. It is essential that we see Powys retain its young people in new and innovative employment sectors whilst recognising that our traditional sectors of agriculture and tourism will also expand and flourish. There is a close link to our funding settlement because if we can increase employment and the numbers living in our county we will 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 2020 to 2025. 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 2020/21, and indicative budgets for the following 4 years to March 2025. 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 2020/21.

The model identifies the estimated requirement for the Council to find ways to reduce its spending by around £32 million per annum over the five-year period of this strategy. Given that local government does not yet have funding information from Welsh Government beyond 2020/21, 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 Gross 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**

Although the UK Chancellor recently signalled an end to austerity as yet there is no clarity about the totality of the UK Government's public spending plans beyond 2020-21. This will be determined by the economy, the impact of Brexit, taxation policy and policy priorities. The Council's settlement will be determined by decisions made by the Welsh Government on how to allocate the funding settlement it receives from the UK Government.

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

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

In December 2019 Wales Fiscal Analysis<sup>1</sup> produced a briefing<sup>2</sup> which shows that for the first time in almost a decade, the Welsh Government was able to increase funding for most spending areas and avoid further cuts.

The Welsh revenue settlement is set to increase by £593 million in 2020-21 relative to 2019-20 – a real-terms increase of 2.3%. Welsh Government plans to draw down £125 million in resource funding from the Wales Reserve in 2020-21, which held £306 million resource funding at the start of 2019-20. There were no changes to devolved tax policies, with the Welsh Rates of Income Tax maintained at 10p in the pound. The 2020-21 budget will be the first in which relative trends in the income tax base in Wales will influence the size of the budget. Overall, the forecasts indicate a small but positive effect from tax devolution on the Welsh budget for 2020-21, with forecast revenues slightly higher than projected block grant adjustments. Forecasts for Non-Domestic Rates revenue are also higher, which has boosted redistributed revenues to local authorities. Given these funding sources, and after allocations made to budget expenditure lines, the Welsh budget has £103 million of unallocated fiscal resource funding, which could be allocated at the final or supplementary budgets.

The real-terms increases in the Welsh Government's resource budget of 1% for 2019-20 and 2.3% in 2020-21 represent a step-change compared to the average fall of 0.7% per annum in real-terms between 2010-11 and 2017-18. However, Welsh Government day-to-day spending in 2020-21 will remain 3% below its 2010-11 level in real-terms. Accounting for population growth during this time, on a per capita measure, funding will be around 6% lower.

Meanwhile, the Welsh Government's capital budget for 2020-21 will increase by 2.4% this year. The Welsh Government will also borrow £125 million to fund capital spending in 2020-21, while repayable financial transactions from the UK government accounts for more than a tenth of available capital financing. On top of existing plans for 2020-21, the Welsh Government allocated an additional £545 million for capital spending in this Draft Budget, including £145 million for decarbonisation and biodiversity projects.

The Local Government Revenue Settlement for 2020/21 represents by far the fastest growth in funding for Welsh local authorities in over a decade. The Revenue Support Grant and redistributed NDR revenues will increase by £184 million compared to 2019-20. Including specific grants, total support for local authorities will increase by 1.8% in real terms from 2019-20. For individual local authorities, core funding increases for 2020-21 range from 3.0% for Monmouthshire to 5.4% for Newport (1.2% to 3.5% in real terms). By contrast, for 2018-19 and 2019-20, floor funding was provided to limit individual authority funding decreases to 0.5% and 0.3% respectively.

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<sup>1</sup> Wales Fiscal Analysis is a programme led by the Wales Governance Centre within Cardiff University, funded by Welsh Government and public sector partners to provide analysis and research into Welsh public finances.

<sup>2</sup> Analysis of the Welsh Government Draft Budget 2020-21: Wales Fiscal Analysis "Austerity is over – for now" December 2019

It remains to be seen whether 2020-21 represents a turning point or a temporary improvement in local government fortunes. The Welsh Local Government Association had estimated that local authorities required a £254 million uplift in their base budgets to maintain existing service provision during 2020-21 (due to increase demand and pay and price inflation), against an increase from Welsh Government of £184 million. Against that background, councils across Wales are expected to increase council tax in 2020-21 to help bridge the gap between the funding available and the cost of providing high quality, accessible local services.

### UK Government budget and outlook

The UK Draft Budget document repeatedly acknowledges the current uncertainty surrounding UK public finances. The 2019 Spending Round commitments - which were the basis for the Welsh Government's assumed block grant for this budget - were made before a full budget event and without updated economic and fiscal forecasts from the Office for Budget Responsibility. A full multi-year spending review was postponed until 2020. Although multi-year settlements have been set for the NHS and schools in England, the eventual implications of these for the Welsh budget is uncertain, since they could be funded by cuts to other areas also devolved to Wales.

We will gain a clearer picture of the prospects for the Welsh budget in February, when the UK government publishes its promised budget. Manifesto spending commitments would mean approximately an additional £80 million in revenue spending in 2020-21. Larger capital spending commitments would mean an additional £182 million for 2020-21, with further capital spending a possibility within the new fiscal rules.

However, the limited scope of the day-to-day public spending commitments and tax cuts in the Conservative manifesto was testament to a likely worsening picture for the public finances next year. The OBR has published a re-stated March 2019 forecast showing the large effect of accounting changes on forecast government borrowing. Already made spending commitments and slower growth forecasts will leave very little room for further spending increases. Over coming years, the 'triple-tax lock' manifesto pledge not to raise Income Tax, National Insurance Contributions or VAT, along with a stated preference for more tax cuts, will limit spending growth under this government, if the Chancellor is to meet his new fiscal targets. The Welsh Government Chief Economist's report notes that a worse-case 'No-Deal Brexit' at the end of the transition period could mean a significant reduction in the resource budget of around £900 million to £1 billion in 2021-22, though this assumes the Chancellor would stick to his fiscal rules in such a scenario.

Therefore, this year's funding increase from the UK government may prove to be only a temporary respite for the Welsh Government. Meeting ever increasing demand for public services without increasing taxes is likely to be unsustainable at the UK level. In the absence of UK government action, whether to meet this challenge at a Welsh level using limited devolved tax powers may well be a key consideration at future Welsh budgets.

## **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 2021 and 2025 the Council will need to reduce its spending by more than £50.8 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 2018 - 2023**

Vision 2025 was approved by full Council in April 2018 and it sets out the long-term vision for the council under four priority areas (aligned to the Wellbeing of Future Generations Act 2015 objectives):



- **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

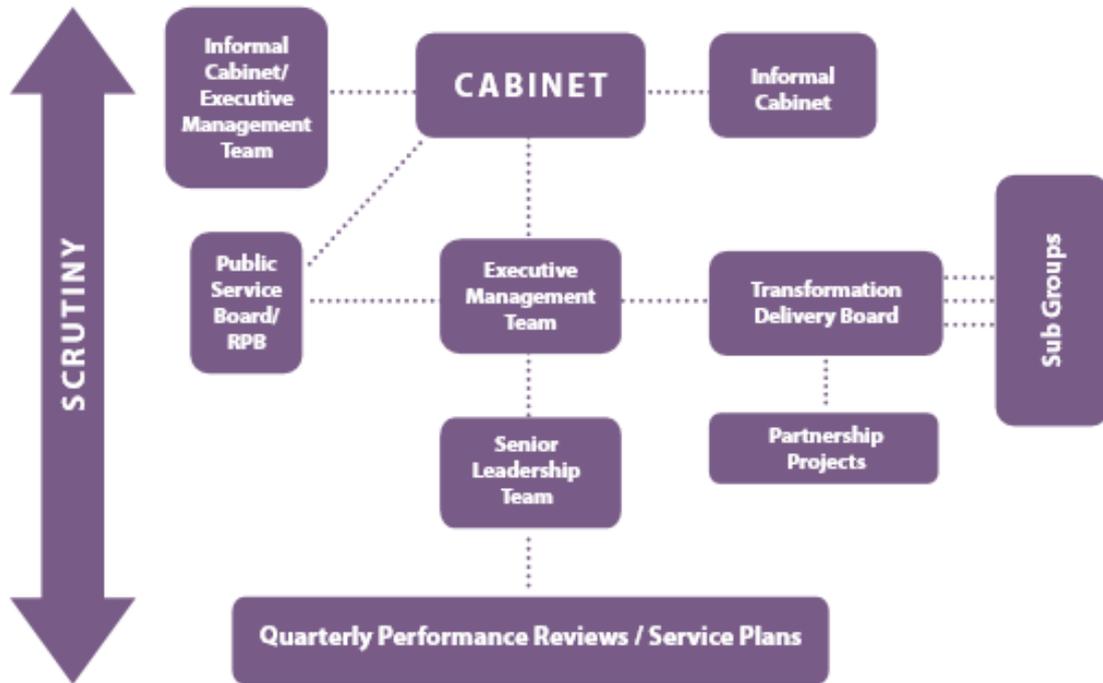
The Corporate Improvement Plan is our road map for the next five years, setting out our top priorities and milestones, including those we are working on with our partners which are also articulated in the Powys Public Services Board Wellbeing Plan Towards 2040, and the Powys Regional Partnership Board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

The Council has reviewed the Plan to ensure that it remains appropriate and to extend it to 2025. The updated Plan, Vision 2025 (2020-25), will be presented to full Council in March 2020 for approval.

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

The Council has an ambitious Transformation Programme in place 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.

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

A new Integrated Business Plan has been developed by each service building on previous Service Improvement Plans and capturing all service objectives, expenditure and workforce implications.

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

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

- Objectives to redesign services to deliver them more efficiently, effectively or in an alternative manner.

- Objectives that identify key delivery partnerships or outsourcing opportunities
- Objectives that realise opportunities to stop delivering services because requirements or priorities have changed, allowing the planned release of resources.
- Objectives that realise opportunities to generate additional income.

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

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

### **Funding Assumptions**

The Welsh Government provides funding to the Council in the form of a Revenue Settlement Grant (RSG) and a share of the National Non-Domestic Rates Pool (NNDR). Together they constitute the Council's Aggregate External Finance (AEF), which represents approximately 68% of our funding.

The Provisional Settlement or Aggregate External Funding (AEF) figure was announced on 16th December 2019 at a level of £184.289 million. Funding in Powys has increased in cash terms by £9.508 million a 5.4% increase. Wales as a whole had a 5.6% increase. When the settlement is adjusted for transfers in (Schools' pay and pensions £2.06 million, and Funded Nursing Care (£99,000)). The revised increase is adjusted to 4.2% and 4.3% for Wales. Powys ranked 14th in terms of its increase, Newport was highest at 5.4%, and Monmouthshire the lowest at 3%.

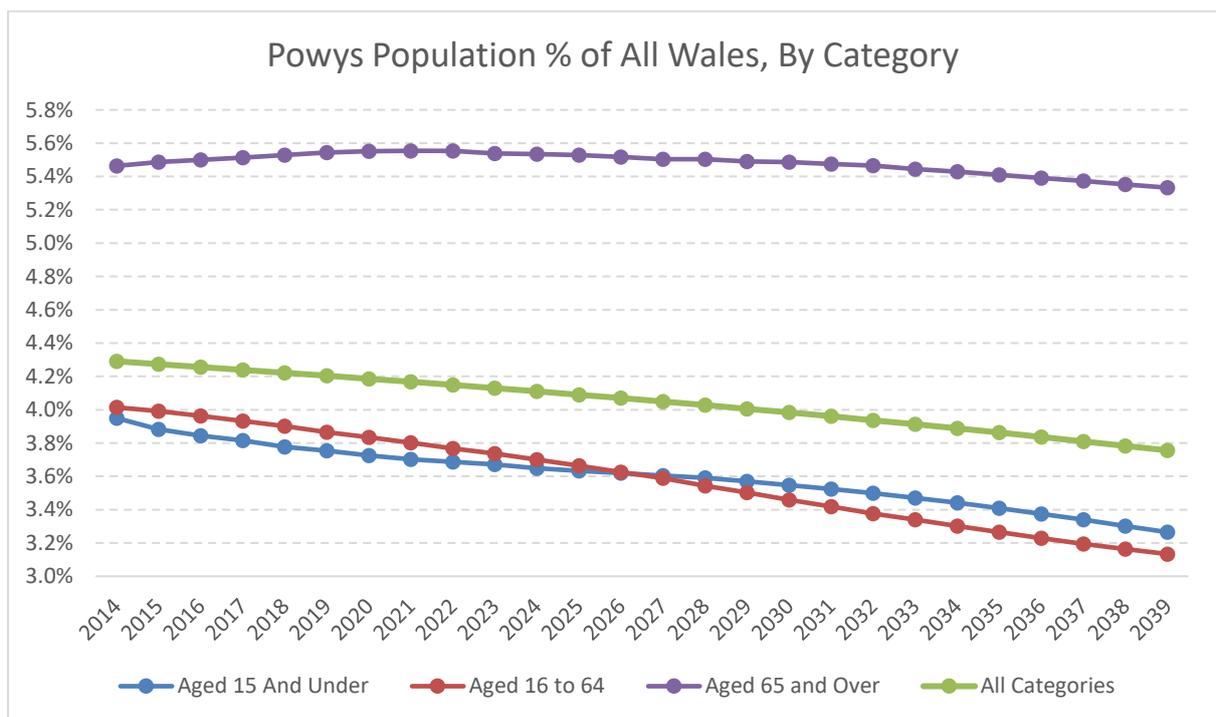
Powys receives £1,395 of funding per capita, compared to the Wales average of £1,426 and the year on year change ranks 17th out of all the Unitary Authorities.

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

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

Dataset <sup>1</sup>	All Wales			Powys			
	2019-20	2020-21	%	2019-20	2020-21	%	Rank
	Final	Provisional	Difference	Final	Provisional	Difference	
Population <sup>2</sup>	3,134,476	3,136,749	0.1%	131,721	132,084	0.3%	10
Pupil Numbers - Nursery and Primary	264,060	263,655	-0.2%	9,755	9,746	-0.1%	12
Pupil Numbers - Secondary in year groups 7-11	158,634	161,806	2.0%	6,297	6,306	0.1%	19
Free School Meals - Primary <sup>3</sup>	45,270	45,270	0.0%	1,034	1,034	0.0%	1
Free School Meals - Secondary <sup>4</sup>	26,400	26,400	0.0%	637	637	0.0%	1
Children in out of work families <sup>5</sup>	126,900	126,900	0.0%	2,900	2,900	0.0%	1
IS/ JSA/ PC/UC (not in employment) claimants - 18 to 64	80,657	79,026	-2.0%	1,605	1,480	-7.8%	18
IS/ JSA/ PC claimants - 65+	110,054	105,082	-4.5%	4,466	4,248	-4.9%	16
IS/ JSA/ PC/UC (not in employment) claimants - all ages	191,177	184,558	-3.5%	6,084	5,740	-5.7%	18
SDA/DLA/PIP claimants - 18 to 64	143,665	142,023	-1.1%	4,544	4,502	-0.9%	12

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



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 £1.84 million.

% Change in AEF	0.50%	1.00%	1.50%	2.00%	3.00%	4.00%	5.00%
Impact £k	£ 921	£ 1,843	£ 2,764	£ 3,686	£ 5,529	£ 7,372	£ 9,214

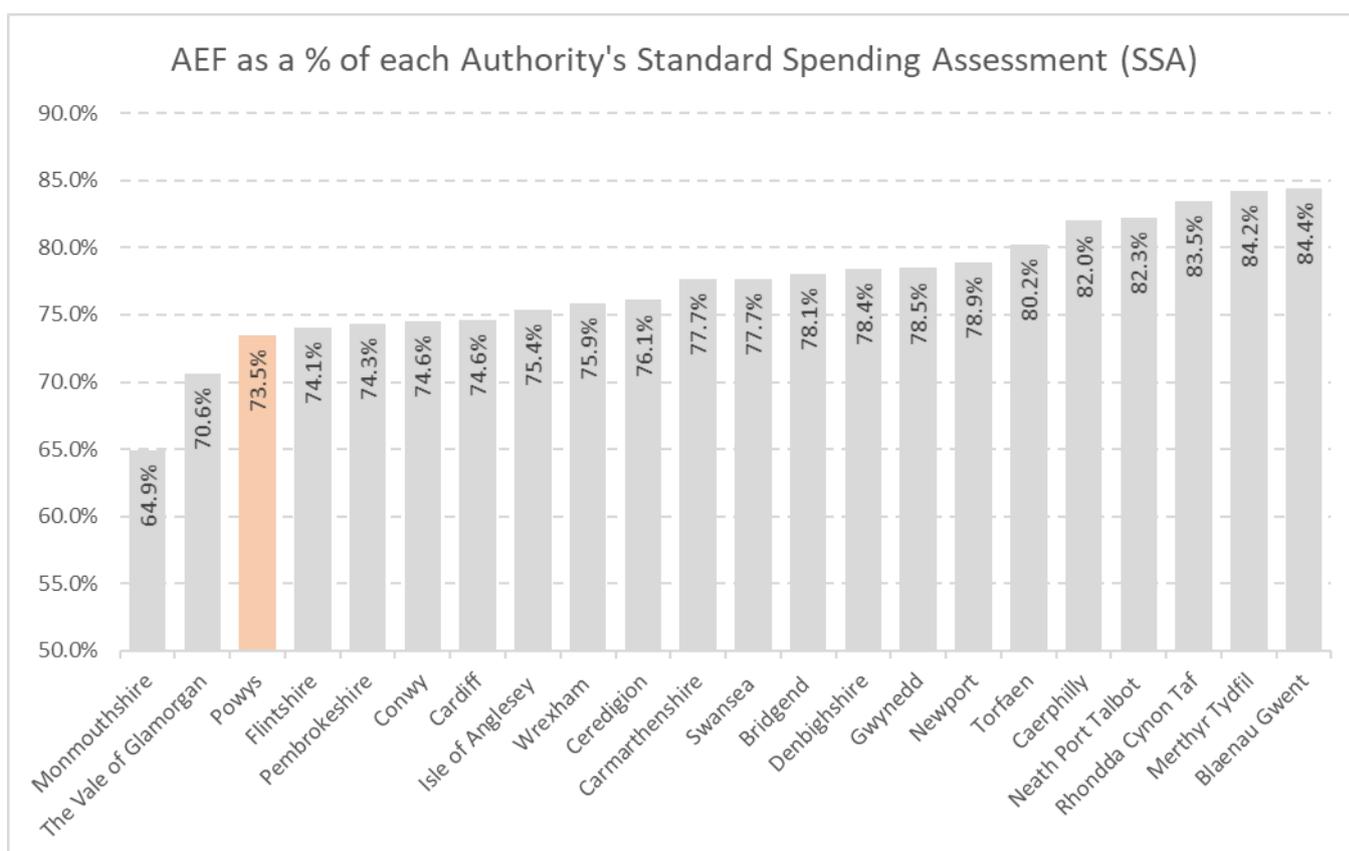
Due to the amount of funding delivered to the Council in this way, any change can be significant and in order to plan over a 5-year period we have modelled a number of funding scenarios ranging from plus or minus 2%.

### 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 £65m of grant funding each year. These grants have also declined in recent years and where a grant has been reduced or withdrawn, the Council's policy is that the service funded by the grant also reduces or ceases.

### Council Tax

Council Tax represents around 32% of the Council's Net revenue budget. Powys' Council Tax contribution is greater than other Authorities. Most other authorities collect less because they have a greater share of the RSG. The below graph shows the percentage of each Local Authority's Standard Spending Assessment covered by central funding (AEF).

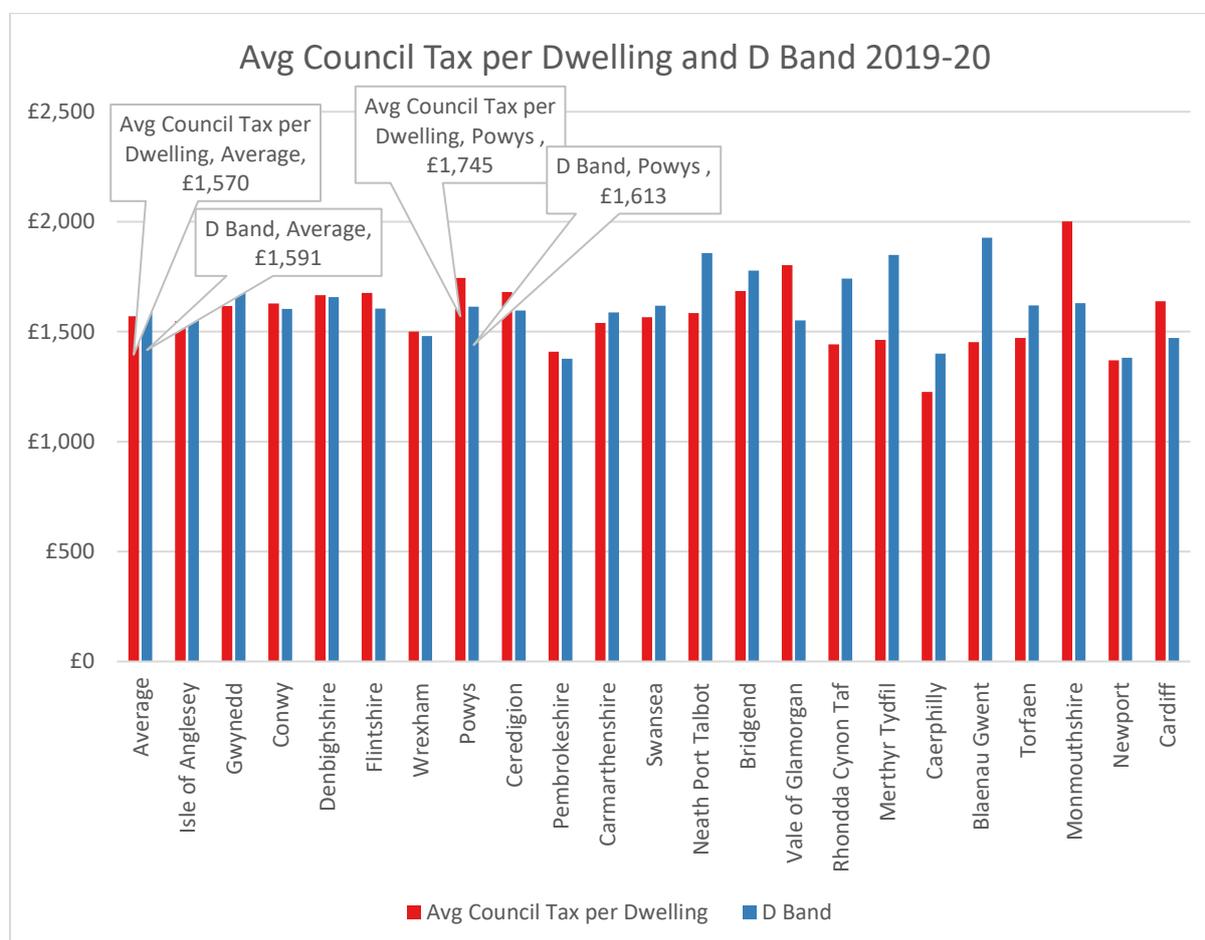


In our financial model (FRM), we are proposing an increase in Council Tax each year of 5% for future years.

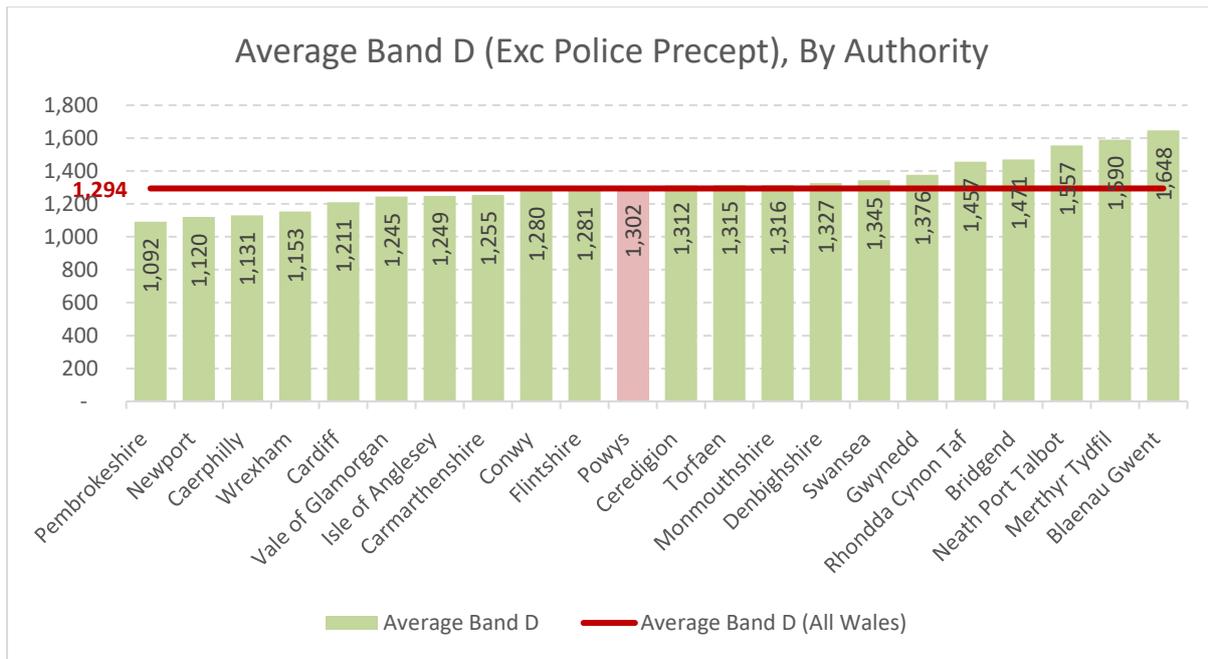
The total Council Tax households will have to pay will be affected by decisions from public bodies, including Community Councils and the Police Authority. The following table indicates the additional permanent funding that Council Tax increases ranging from 1% to 10% would produce from 2021/22.

% change in council tax	1.0%	2.5%	5.0%	7.5%	10.0%
Impact on council tax - £'000	853	2,133	4,265	6,398	8,530

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 2019/20 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 2019/20 council tax average cost per dwelling and the Band D average (these figures include all precepts).



For 2019/20, the average annual Council tax bill for a Band D property in Powys was £1,302. This was broadly in line with the Wales average for Band D properties of £1,294. The table below shows this for each of the local authorities in Wales (excluding precepts)



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

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

## **Revenue Budget**

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

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

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

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

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

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

Driver	Comments	Sensitivity: +/- 1% (£m)	Best	Most Likely	Worst
Revenue Support Grant & Non-Domestic Rates Funding	Welsh Government have not indicated funding levels for 2021/02	£1.84m	2.0%	-	(2.0%)
Council Tax	Cabinet have set the current assumption at 5% increase per annum, after accounting for CTRS	£0.85m	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	£0.40m	£0.40m	£0.40m
External Grants	Approximately £60m of external revenue grants expected in 2019/20	£0.60m	-	-	-
Pay Awards: General	Includes NI & Pensions; excludes Schools Delegated	£1.86m	2.00%	2.00%	2.00%
Other Inflation/ Price Pressures		£0.56m	1.50%	2.00%	2.50%

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:

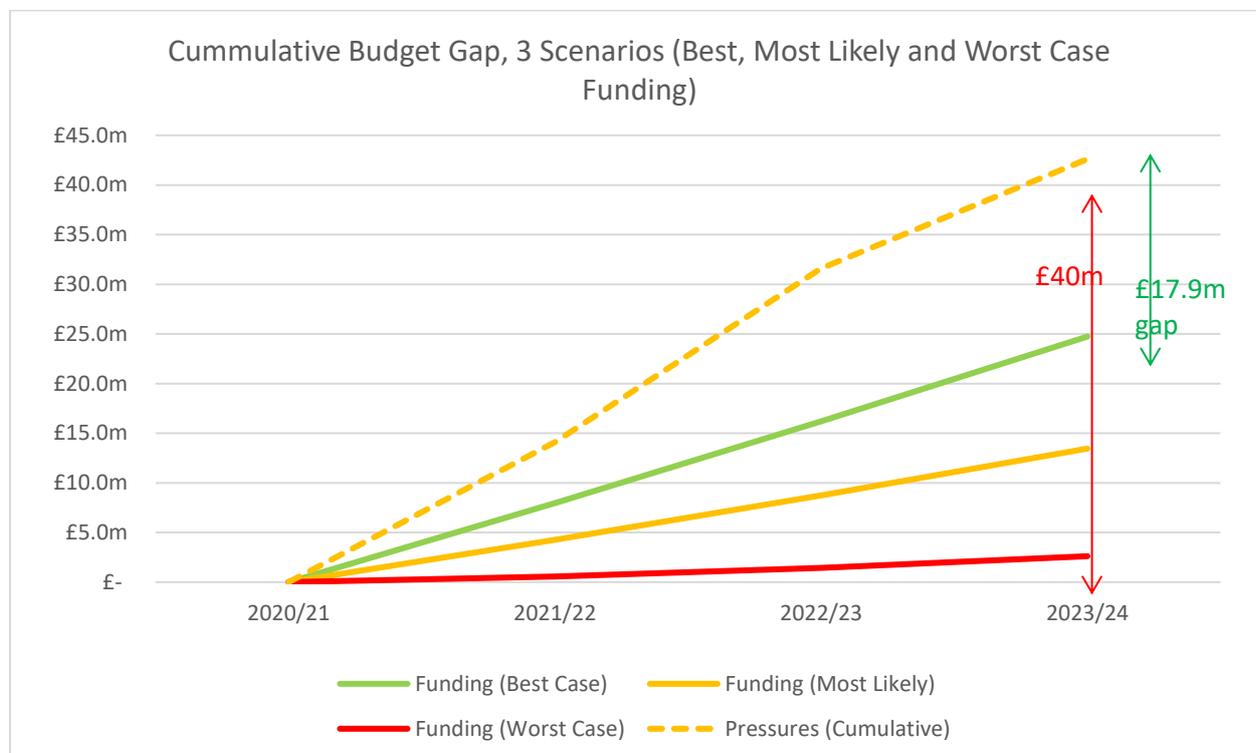
- Identifies the cost of implementing our Vision;
- sets out future funding levels from Welsh Government;
- considers the level of Council Tax to be raised;
- identifies and estimates the cost pressures facing the Council;
- sets out the policy on Reserves;
- identifies the gap between our funding and 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 Worse 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 current worst case FRM modelling is summarised below. The FRM highlights that over the next three years we have £53m of pressures (including inflation, capital financing cost to support borrowing on the capital programme and service pressures) and as this scenario only provides £4m additional funding, there is a financial gap of £49m by 2024/25. This is in part mitigated by Cost Reductions of £16.2m, leaving a budget gap of £32.8m.

Scenario Gap - £k	2021/22	2022/23	2023/24	2024/25	Cumulative
Best	(£6.21m)	(£6.53m)	(£2.69m)	(£3.31m)	(£18.7m)
Most Likely	(£9.89m)	(£13.10m)	(£6.47m)	(£5.27m)	(£34.7m)
Worst	(£13.58m)	(£16.72m)	(£10.01m)	(£8.74m)	(£49.0m)
Cost Reduction Proposed to Reduce the Gap	(£9.02m)	(£6.48m)	(£0.73m)	£-	(£16.23m)
Revised Worst Case gap	(£4.56m)	(£10.24m)	(£9.27m)	(£8.74m)	(£32.81m)

<b>REVENUE FUNDING</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Council Tax Increase	5%	5%	5%	5%	5%
Funding Change	4.2%	(2.0%)	(2.0%)	(2.0%)	(2.0%)
	£'000	£'000	£'000	£'000	£'000
<b>Total Revenue Funding</b>	<b>269,600</b>	<b>270,179</b>	<b>271,046</b>	<b>272,209</b>	<b>273,678</b>
<b>Base Budget (Prior Year)</b>	<b>255,186</b>	<b>269,600</b>	<b>274,739</b>	<b>285,845</b>	<b>296,283</b>
<b>General Inflation:</b>	2,833	2,441	2,493	2,546	2,600
<b>Grant Changes &amp; Transfers into RSG</b>	230				
<b>Corporate Pressures</b>	856	620	620	620	620
<b>Corporate and Service Specific Pressures:</b>					
Childrens	5,681	-408			
Adults	2,905	1,618	1,891	1,500	1,500
Highways Transport and Recycling	1,055	252	255	660	452
Property, Planning and Public Protection	105			29	29
Digital	108				
Housing General Fund	30			6	6
Schools	321	141	143		
Schools Delegated	6,276	1,587	1,591		
Provision for Service Pressures	0	5,000	5,000	5,000	5,000
Legal	40				
Corporate	924	140	140		
Finance	95				
<b>2019/20 Undelivered Savings</b>	3,751				
<b>Savings Agreed 2020/21</b>	(10,796)	(9,020)	(6,476)	(733)	
<b>Capital Financing Costs:</b>		255	2,962	810	
<b>One off funding: MRP Changes</b>		2,512	2,488		
<b>Total Revenue Budget</b>	<b>269,600</b>	<b>274,739</b>	<b>285,845</b>	<b>296,283</b>	<b>306,489</b>
<b>(Funding Shortfall)/ Surplus - In Year</b>	<b>(0)</b>	<b>(4,559)</b>	<b>(10,240)</b>	<b>(9,275)</b>	<b>(8,737)</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 and charges plays an important part of our financial strategy. The Council raises approximately £60m of income annually. An **Income Policy** is in place together with a Fees and Charges register. It is important that fees are reviewed at least annually as part of the budget setting process and reviewed during the year, in line with the Council's income policy. This will ensure existing targets are being met, additional costs are being recovered through charging, and any further income potential is explored to maximise the Council's resources.

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

The Wellbeing and Future Generation Act enshrines in legislation sound principles that mean the impact of decisions should be considered over a wide range of

stakeholders over a longer period. The Council has a thorough impact assessment process in place to ensure that all decisions are properly considered. All budget decisions will continue to be assessed rigorously to ensure that the impact is understood and that prudent and sustainable budgets continue to be set.

## **Capital**

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

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

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

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

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

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

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

## **Reserves**

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

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

The Council faces a continuing financial challenge and it is essential that a prudent reserve level is in place to ensure enough financial capacity is available. This cannot be stressed too highly given the level of 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. However, it is useful to refer to Financial Indicators based on ratios produced by Welsh Government. These indicators provide comparative statistics for Local Authorities and include the following on reserves:-

	<b>Powys<sup>1</sup></b>	<b>All Wales Total</b>
General and other reserves	£21.1m	£545.3m
Earmarked reserves	£28.3m	£866.7m
Total usable reserves	£49.4m	£1,412m

<sup>1</sup>Local Authority Financial Indicators, Wales

2017/18

### **Usable reserves as a percentage of gross revenue expenditure**

This indicator measures the relationship between an authority's usable reserves and its annual gross revenue expenditure. The average for Wales in 2017/18 was 19.8% (17.5% 2016/17). Powys is 16.6% (17.9% 2016/17).

### **Earmarked reserves as a percentage of gross revenue expenditure**

This is an indication of reserves increasing proportionately more than gross revenue expenditure or vice versa.

Councils with very high levels of earmarked reserves relative to their spending should review the purposes for which these are held to ensure they are still required. The purpose for holding reserves, particularly where reserves are increasing, should be clearly communicated in presentation to the Council and through the annual accounts. The average for Wales in 2017/18 was 12.1% (12.2% 2016/17). Six authorities had a % greater than 15% (seven in 2017/18). Powys is 9.5% (2016/17 9.7%).

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. Allocations from this reserve are

considered by the Transformation Programme Board and are approved on the basis of an appropriate business case.

### **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. Borrowing rates are forecast to increase, and borrowing to cover the future capital programme costs will be considered against the cost of carry.

### **Risks and Risk Management**

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

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

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

Having a better understanding of the importance of, and fully implementing, risk management will make a huge contribution to the Council. Better identification of risks

and their management will mean that better use of resources is achieved. If we use the resources available to us more efficiently and effectively then the service to our customers can only be improved.

## **Budget Risks**

### Change Delivery Capacity

A number of 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 2020/21 is significant at £11.6m. 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 in order 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.

The total savings required in 2019/20 is £21.692 million. The savings delivered to date total £14.004 million, 70% of the total. Assurance has been provided that further savings of £2.377 million can be delivered this year. The remaining £5.311 million is considered to be unachievable in the current financial year.

The table below summarizes the level of savings delivered over the last 5 years.

<b>Financial Year</b>	<b>Target (£m)</b>	<b>Delivered (£m)</b>	<b>Delivered %</b>
2014/15	17.6	14.0	80%
2015/16	12.8	9.7	76%
2016/17	12.1	9.6	79%
2017/18	11.8	8.3	71%
2018/19	12.3	6.5	53%
2019/20	21.7	16.4	76%
<b>Total</b>	<b>88.3</b>	<b>64.6</b>	<b>73%</b>

### Income

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

## Equal Pay

The Council has mitigated the financial risk of potential future equal pay claims by holding a reserve to support these costs. The six year period expired on 31<sup>st</sup> March,2019. However there are a small number of claims that were raised before this date which are being pursued through legal channels and are awaiting further information from the Tribunal and solicitors.

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

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

## Mitigation, Review and Monitoring

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

## **Stakeholder Communication & Engagement**

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

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

## **Public Communication and Engagement**

Over the past few years the Council has sought to engage residents in the decision making process around setting a balanced budget using an online budget simulator tool. The 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.

## **Member Seminars**

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

## **Finance Scrutiny Panel**

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

## **Conclusion**

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

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

## **Supporting Documentation**

***Vision 2025: Our Corporate Improvement Plan***  
***Income Management and Service Cost Recovery Policy***  
***Capital Strategy***  
***Capital Receipts Policy***  
***Reserves Policy***  
***Treasury Management and Investment Strategy***  
***Risk Management Framework***  
***Corporate Risk Register***