

CYNGOR SIR POWYS COUNTY COUNCIL.

CABINET EXECUTIVE
Date: 26th January 2021

REPORT AUTHOR: County Councillor Aled Davies
Portfolio Holder for Finance

SUBJECT: Draft Medium-Term Financial Strategy 2021-2026 and Draft
2021-22 Budget and Capital Programme for 2021-2031

REPORT FOR: Decision

1. Purpose

- 1.1 To seek Cabinet's approval of the draft Medium-Term Financial Strategy for 2021-26, which includes a Financial Resource Model for 2021-26, a draft revenue budget for 2021-22 and a draft capital programme for 2021-22 to 2030-31.
- 1.2 The Council is required under the Local Government Act 2003 to set a balanced budget for the forthcoming financial year, the MTFS reports a balanced budget for 2021/22. 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.

2. Background

- 2.1 Local Government funding in Wales has been under significant pressure for over a decade, in response councils have relied on a combination of significant savings, delivering efficiencies, transforming services and ceasing the delivery of some services to reduce costs. Like other councils across Wales, Powys County Council continues to face significant challenges arising from demographic changes, increase service demands, citizen expectations and rising costs. But in addition to what was already a challenging environment we have also had to contend with a global pandemic.
- 2.2 The Coronavirus pandemic has delivered the largest peacetime shock to the global economy on record, the measures imposed by the UK and Welsh Governments have severely restricted economic and social life, driven unprecedented falls in national income, increased public spending and pushed public debt to its highest level since 1944-45, and created considerable uncertainty about the future.
- 2.3 It is clear that the virus and the ongoing measures imposed continue to have an unprecedented detrimental financial impact on the Council and this is likely to continue through 2021-22 and into future years. The additional financial support provided by Welsh Government during 2020-21 has been significant and has been instrumental in sustaining our financial position. Further support is expected to be available into 2021-22 but at what level and for how long is yet to be confirmed so significant risk remains.

- 2.4 Against this background, the Cabinet and Executive Management Team (EMT) have reviewed and updated the Council's Medium Term Financial Strategy. The Council has in recent years placed a greater focus on longer term financial, service and workforce planning to help provide sustainable solutions to the challenges we continue to face. The progress we made last year had identified considerable costs reductions for 2021-22 which now form a significant part of the budget proposal. The impact of dealing with the pandemic has out of necessity seen us return to single year planning for the development of the draft budget for 2021-22, and to date little work has been undertaken across the subsequent years of the plan. We need to quickly turn our attention to this as it is fundamental in supporting our financial resilience over the Medium and Longer Term and our ability to approve and deliver balanced budgets.
- 2.5 We cannot underestimate the significant challenge facing the Council in balancing the financial position over many years to come, there will be difficult choices to make, and the clear prioritisation of resources that deliver realistic outcomes is the key to our success.
- 2.6 Vision 2025, the Council's Corporate Improvement Plan and the Medium-Term Financial Strategy (MTFS) identify the Council's service and resource priorities for the next five financial years, with a focus on 2021-22.
- 2.7 The Vision 2025 Plan is reviewed annually to ensure that it continues to reflect the Council's operating environment and priorities and the 2021-25 Plan will be presented to Council for approval at the same time as the final MTFS and 2021-22 is presented on 28 February. This will ensure the Corporate Plan and MTFS are aligned, enabling the reader to make explicit links between the Council's priorities and the resources directed to support them.
- 2.8 The Council's MTFS is set within the context of UK economic and public expenditure plans, Welsh Government priorities and legislative programme. It articulates how the Council plans to use its resources (revenue and capital) to support the achievement of its corporate priorities as well as the management of its statutory and core duties, known pressures and risks. The MTFS helps the Council to work more effectively with partners in other sectors and provides a strategy for the use of reserves to meet changes in resources, risks or unforeseen demands from year to year without impacting unduly on services or council taxpayers.
- 2.9 The draft MTFS includes the:
- principles that will govern the strategy and a five-year Financial Resource Model (FRM), comprising detailed proposals for 2021-22 and outline proposals for 2022-23 to 2025-26.
 - Capital Financing Strategy and the Treasury Management Strategy; and
 - Capital Programme for 2021-22 to 2030-31.
- 2.10 The Cabinet and EMT have developed the draft MTFS to guide the development of the proposed 2021-22 draft budget, the Financial Resource Model and the draft Capital Programme. At the same time as updating the MTFS, the Council is legally required under the Local Government Act 2003 to set a balanced budget for the forthcoming financial year by 11 March each year.

2.11 Production of the draft budget for the forthcoming year is dependent on receipt of the provisional local government settlement from the Welsh Government which for 2021-22 was late to be published on 22 December 2020. This report provides a draft Budget for 2021-22 for Cabinet's approval, subject to which it will be considered by the Council's Overview and Scrutiny Committees before a final budget is presented to full Council for approval on 25 February 2021. The Welsh Government is due to publish the final local government settlement on 2 March 2021 so if there are any late changes these would need to be made and presented to Council at the meeting on the 4 March 2021 for further approval.

3. Advice

Welsh Government Provisional Local Government Settlement

3.1 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). The settlement for 2021-22 provides Welsh local authorities with a total increase of £179 million (3.8%) compared to 2020-21.

3.2 The 2021-22 provisional settlement gave Powys Council a cash increase of £7.343 million (4%) on 2020-21, this includes adjustments to the 2020-21 base figure with a transfer in for the Teachers Pay Grant, £160k, and data changes of £105k.

3.3 Welsh Government funding is allocated to unitary authorities using a formula driven by a number of 'indicators' (e.g. population projections, pupil numbers, primary free school meals and income support, job seekers allowance or pension credits claimants). The movement in these indicators, relative to the movement in the indicator for Wales as a whole, affects Powys' share of the overall funding available. The changes to the key indicators and our comparative position across Wales are shown in Table 1 below.

Table 1

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

3.4 Overall Powys is ranked 8th of 22 councils in terms of its increase, the highest being Newport with 5.6% and the lowest Ceredigion with a 2% increase. This position represents a significant improvement for Powys compared to previous years.

3.5 Based on the provisional settlement Powys will receive £1,449 of funding per capita, compared to the Wales average of £1,471.

- 3.6 The Finance Minister's statement is clear that Welsh Government recognise the need to continue to provide funding to support the response to the pandemic. This will be considered separately and does not form part of the settlement.
- 3.7 While the un-hypothecated (non-earmarked) settlement is the largest single source of funding available to authorities, it is not the only one. The Council also funds its expenditure by generating income from grants, fees and charges and council tax. In setting the budget and council tax levels for next year, Welsh Government expects every authority to take account of all the available funding streams and to consider how to secure best value for Welsh taxpayers through effective and efficient service provision.

Revenue Settlement Implications for 2022-26

- 3.8 The Welsh Government has given no indication of the future allocations for 2022-23 onwards, but in view of current economic and fiscal projections and in the absence of other information the MTFS sets out a worst likely scenario predicated on an assumption that AEF will reduce by -2% from 2022-23, onwards. Based on these assumptions the total recurrent reductions required from 2022-23 to 2025-26 amount to around £37 million.

Provisional Local Government Capital Settlement

- 3.9 General capital funding for 2021-22 in Wales will continue to be set at £198 million. Included within this amount is £20 million for the continuation of the public highways refurbishment grant, including support for active travel; £54 million of historic baselined general capital grant; and the continuation of an additional £35 million of general capital grant, which was announced as part of the 2019-20 and 2020-21 budgets. This additional £35 million will enable Authorities to begin to respond to the joint priority of decarbonisation, including for housing and economic recovery following Covid-19.
- 3.10 The Welsh Government settlement includes a non-hypothecated general capital funding settlement, also calculated using a formula. The funding for 2021-22 remains at £177.837 million. Powys will receive a modest uplift of £76k. The split is:
- Supported borrowing £38k - total £4.586 million
 - General Capital Grant £38k – total £4.598 million

Final Local Government Settlement

- 3.11 Welsh Government is due to publish its Final Budget and Final Local Government Settlement for 2021-22 on 2 March 2021. The Welsh Government has included the Council Tax base and other data changes in the provisional settlement and therefore it is unlikely that the settlement for Powys will change significantly, however, more information on 2021-22 specific grants will be provided at that time. Further confirmation of Welsh Government funding to support the costs arising from the ongoing pandemic in 2021-22 is also expected.

Current Year (2020-21) Financial Performance

- 3.12 The pandemic has had a considerable impact on the Councils budget this year, financial projections early in the year predicted a deficit in excess of £12 million but

this was before the full scale of support from Welsh Government was known. The Council is now drawing down this support and has assurances about it being maintained until the end of the year. Budget holders have also taken corrective action to reduce costs in order to limit the financial impact on the budget.

The in-year financial position as at 31 December 2020 is shown in Table 2 below. As part of the forecast additional assumptions on the financial position are made regarding expected support from Welsh Government and changes to cost reductions, if these materialise over the last quarter the forecast will reduce to a £0.57 million deficit (excluding the Housing Revenue Account and Delegated Schools). At this point in the financial year £2.6 million of budget reduction proposals have been deemed to be unachievable in the current financial year.

Table 2

Service Area	Working Budget	Forecast Spend	Variance (Over) / Under Spend	Variance (Over) / Under Spend %
Adult Services	63,379	65,257	(1,878)	(3.0)
Childrens Services	26,013	27,395	(1,382)	(5.3)
Commissioning	3,193	3,112	81	2.5
Education	8,720	8,548	172	2.0
Highways Transport & Recycling	28,019	28,005	14	0.0
Property, Planning & Public Protection	6,248	6,565	(317)	(5.1)
Regeneration	626	644	(18)	(2.9)
Housing & Community Development	4,012	3,943	69	1.7
Digital Services	3,934	3,829	105	2.7
Transformation & Communications	1,530	1,430	100	6.5
Workforce & OD	1,944	1,924	20	1.0
Legal & Democratic Services	3,060	3,062	(2)	(0.1)
Finance	5,691	5,763	(72)	(1.3)
Corporate Activities	31,307	28,836	2,471	7.9
Covid 19 Tracing	0	1,595	(1,595)	
Total	187,676	189,908	(2,232)	(1.2)
Housing Revenue Account (HRA)	0	(1,394)	1,394	
Schools Delegated	81,763	81,522	241	0.3

- 3.13 The course of the pandemic and further measures or restrictions imposed through the remainder of the year, particularly as we move through the winter months, will continue to impact on our budget and careful monitoring of the position is critical to ensure that we take appropriate action to manage our financial position.

Financial Impact of responding to the pandemic

- 3.14 The pandemic has already had a significant impact on our financial position and without the support from the Welsh Government Hardship fund we would be facing a significant deficit which would inevitably deplete our reserves and place the council at significant financial risk.

- 3.15 It is likely that the financial impact of the pandemic will continue into 2021/22 and will almost certainly affect public sector finances for many years to come irrespective of the course of the pandemic. We have to clearly understand how the pandemic could continue to impact on our services, our costs and our levels of income into the new financial year.
- 3.16 Welsh Government have confirmed that additional funding will be provided to support the ongoing pandemic outside of that provided through the settlement, but we do not have confirmation of what will be available beyond 31 March 2021.
- 3.17 We have to be clear about the significant risk this places on our financial position and it is vital that we assess how this will potentially impact on the Councils budget into next financial year and consider this within our plan.
- 3.18 The Council's response to the pandemic included the implementation of the Business Continuity Plan, this saw the Council move away from business as usual in order to focus on Business-critical activities and the implementation of specific plans in response to the emerging situation.
- 3.19 The situation has impacted on all service areas, increased demands on some, with the suspension and the parring back of others. Staff have been withdrawn from their usual duties and many are being redeployed as we react to demand and needs of the organisation. As a result additional costs have been incurred, levels of generated income have declined.
- 3.20 Elsewhere across the organisation reduced levels of activity and the suspension of some services have resulted in some budgets not being spent. We have also seen slippage in our capital schemes which has reduced the impact on the Capital Charges and borrowing budgets as projects are delayed.
- 3.21 The WG Hardship fund makes available £500 million to support Local Authorities in 2020/21 and we have drawn down £9.2 million of support for additional costs incurred and £2 million for lost income to date.
- 3.22 Council Tax collection rates have fallen. A rise in the number of claimants eligible for the Council Tax reduction Scheme has seen a considerable pressure on that budget.
- 3.23 A log of the potential financial risks has been drawn together which identifies potential costs and income loss of £12.1 million. This log will sit alongside our budget plan.
- 3.24 Opportunities have also shown themselves during the last 10 months and some services have been delivered differently and at lower cost and we have to embrace these changes in our longer-term plans.
- 3.25 The impact is also falling heavily on residents, communities and businesses in our County. The Council has administered many Welsh Government schemes, awarding grants and rate relief to businesses, the £500 payment for care workers, the Statutory Sick Pay enhancement and self-isolation payments. Providing our residents and businesses in excess of £70 million in support to date.

Council's Improvement Journey

- 3.26 The Council has continued to make significant progress on its improvement journey during 2020 despite the global pandemic. In February 2020, Sean Harris undertook a further review of the governance and running of the Council. This subsequently led to inspections of both Adult Social Care and Children's Services and an improvement conference for both services. The result of these events was the CIW, as regulators, were suitably assured of the progress made in both services and the governance and ability of the LA to continue this improvements without additional monitoring activity.
- 3.27 Good progress has also been made in Education. Over the last 18 months, Estyn has continued to engage with the council and regular contact was supplemented by an Improvement Conference in November. It is pleasing that Estyn concluded from that conference that Powys is making 'sound progress' in its improvement journey. Additionally, the education transformation programme continues to progress to secure an effective learner entitlement across Powys that also resolves long-standing challenges in very early years, secondary, Welsh medium and sixth form provision.
- 3.28 The WG appointed Improvement and Assurance board has also been stood down and replaced with service improvement boards and an over-arching corporate improvement board.
- 3.29 Good progress has been made on delivering the Mid Wales Growth Deal and a Heads of Terms was signed between the UK Government, Welsh Government and both Local Authorities in December 2020. Work is underway to deliver the all important detailed agreement as soon as possible in 2021. Implementation plans are now being drawn up to ensure the earliest conclusion of the detailed agreement and commencement of the important investment.

Draft MTFs 2021-26

- 3.30 The draft MTFs for the next five years is attached at Appendix A, based on the latest information available from the Welsh Government. It does not include fixed funding, expenditure or activity projections, but sets best, worst and most likely scenarios for the resources that will be available. The MTFs is reviewed regularly and will be amended as additional information becomes available, with the detail for future years being developed over the period of the strategy.
- 3.31 Implementation of the MTFs will continue to be led by Cabinet and Senior Leadership Team (SLT)¹, supported by robust financial and performance data. The Council will seek to ensure that it is widely understood by internal stakeholders (Members, employees and Unions) and external stakeholders (citizens, businesses and partners). As well as linking explicitly to the Council's corporate priorities, the MTFs also links to other internal resource strategies such as the Workforce Plan, the Digital Powys Strategy, the Treasury Management Strategy, Asset Management Plans and the Council's Transformation Programme.

Engagement, Scrutiny and Challenge

- 3.32 Over the past few years the Council has sought to engage Powys citizens, local councillors, partners and the workforce in the budget development process. This

¹ SLT comprises the Chief Executive Officer, two Corporate Directors and 12 Heads of Service)

included providing more information to the public, undertaking specific consultation on proposals and an interactive online budget simulator consultation exercise.

These have created the opportunity for residents to influence service delivery and the helped define the priorities for the Council.

This year a different approach has been taken that focuses on the impact the COVID-19 pandemic has had on the Council and how we have supported residents and businesses through it. On online survey “Future-proofing Powys” asks residents for their views on:-

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

3.33 Members of the Council have engaged in the budget planning process through a series of member budget seminars which have given Councillors the opportunity to review and challenge the process. The Finance Scrutiny Panel (comprising Group Leaders of Non-Executive Groups and Audit Committee representatives) have also been engaged during the process and financial assumptions and settlement information have been shared with members and the impact on the budget modelled and considered.

3.34 This report presents the detailed draft budget for 2021-22 and each of the Council’s Overview and Scrutiny Committees will have the opportunity to consider the implications of the draft budget for the service areas within their remit over the next few weeks. The Committees will then be able to provide feedback to the Cabinet for consideration before the final MTFS and 2021-22 budget and 2021-31 capital programme are presented to full Council for approval on the 25 February 2021.

MTFS Principles

3.35 The draft MTFS provides a set of clear principles which will drive the Council’s budget and spending decisions over 2021-26 and which Members and others can examine and judge the Council’s financial performance against. The ten key principles are to ensure that:

1. The Council will continue to meet its statutory obligations and to demonstrate how its budget supports the priorities contained in Vision 2025.
2. The Council’s financial control system will be sufficiently robust to support the delivery of financial plans and mitigate corporate risks.
3. All Council budgets will be reviewed annually to ensure resource allocations are delivering value money and continue to align to the delivery of priority outcomes in Vision 2025.
4. Financial plans will provide an optimum balance between income and expenditure for both capital and revenue.

5. Reserves will not be used to fund recurrent budget pressures or to keep down council tax rises.
6. The Council's General Fund reserve will be maintained at a minimum of 3% of Net Revenue Expenditure over the period of the MTFS.
7. Capital investment decisions will support the Council's corporate priorities and mitigate any statutory risks taking account of the return on investment and robust business cases.
8. Prudential borrowing will only be used to support the capital programme where it is affordable and sustainable within the Council's overall borrowing limits and the revenue budget over the long term.
9. Decisions on the treatment of surplus assets will be based on an assessment of the potential contribution to the revenue budget and the capital programme.
10. Budgets will be managed by members of SLT in accordance with the Council's Financial Procedure Rules.

Financial Resource Model

- 3.36 The MTFS includes a Finance Resource Model (FRM) which provides a financial forecast for the forthcoming five financial years. This is provided at Appendix B. The MTFS sets out a best case, most likely case and worst case scenarios for the Council's future years' budgets by making a number of assumptions about the level of funding that will be received from Welsh Government and cost drivers such as pay and price inflation and demographic change. All the scenarios include an annual council tax increase of 5%. The FRM is based on the worst-case scenario.
- 3.37 Table 3 sets out the gap between the Council's net budget requirement and the possible funding available until 2025/26 based on each of the scenarios in the MTFS.

Table 3

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

- 3.38 Table 3 shows that the Council will need to find recurrent cost reductions of between £7.5 million and £37 million in addition to the £7.7 million already identified, and/or increase council tax by more than 5% per annum over 2022 to 2026 to balance future years' budgets.

Draft Revenue Budget 2021-22

- 3.39 Taking account of advice from the Audit Wales and CIPFA on the Council's financial planning arrangements, the Cabinet and the Senior Leadership Team adopted a new Integrated Business Planning approach to developing the budget last year. This approach has involved all council services:
- Reviewing comparative performance data
 - Identifying any inescapable cost pressures
 - Identifying cost reduction opportunities
 - Planning service changes to secure delivery of the priority outcomes in the Council's Corporate Improvement Plan Vision 2025 and statutory obligations
 - Identifying any workforce implications of service changes
- 3.40 The further development of the programme has been severely limited by the pandemic with resources focused on business-critical activity, nonetheless progress had been achieved with the IBP process now embedded into the Council's planning framework and ways of working.
- 3.41 The impact and response to the pandemic disrupted our planning cycle and a revised timetable was put in place to ensure our plans could be brought back on track.
- 3.42 Cabinet and SLT began the budget planning process for 2021-21 using the worst-case scenario in the approved MTFs (i.e. a budget gap of £4.5 million on the 2020-21 working budget, assuming a 5% increase in Council Tax). However during the autumn it became clear that the assumption around the level of inescapable pressure on services was not high enough and there was a need to recognise that some 2020-21 savings were undeliverable. Despite identifying more than £12 million of cost reduction proposals a significant budget gap remained before the provisional local government settlement was received in December 2020.
- 3.43 Our plans this year have out of necessity focused on the 2021/22 financial year and to date little work has been undertaken across the subsequent years of the plan. We need to quickly turn our attention to this as it is fundamental in supporting our financial resilience over the Medium and Longer Term and our ability to approve and deliver balanced budgets.

2021-22 Net Budget Requirement

- 3.44 The net budget requirement is the amount of budget the Council requires to fulfil its functions. It is calculated using the previous year's budget as the baseline, adding any inescapable budget pressures and subtracting any budget reduction proposals.
- 3.45 Table 4 below sets out the proposed draft net budget for 2021-22 (£280.664 million including the Delegated Schools' Budget).

Table 4: 2021-22 Draft Revenue Budget

£'000	Base Budget	Inflation	Demography	Pressures	Savings	2020/21 Undelivered Savings	Capital Pressures	Budget 2021/22	%
Delegated	75,749	109	701	787	-39	0		77,306	2.1%
Education	14,711	206		772	-381	0		15,308	4.1%
HTR	27,852	402		780	-1,196	60		27,898	0.2%
H&CD	4,032	71		134	-265	75		4,046	0.3%
PPPP	6,347	236		528	-521	0		6,591	3.8%
ASC Commission/Director	3,175	38		33	0	0		3,246	2.2%
ASC	63,344	209	700	7,354	-5,091	699		67,215	6.1%
Children	26,016	176	187	2,297	-3,184	572		26,065	0.2%
Director/regen	793	35		0	-25	0		803	1.3%
Finance	5,691	117		0	-80	150		5,878	3.3%
Transf/Comm	1,531	21		38	-57	0		1,533	0.1%
WOD	1,847	56		126	-10	26		2,045	10.7%
Digital	3,905	87		225	-681	0		3,536	-9.5%
Legal	3,061	41		27	-99	52		3,081	0.7%
Corp	31,386	104		2,056	-200	0	2,767	36,113	15.1%
Total	269,440	1,907	1,588	15,157	-11,828	1,634	2,767	280,664	4.2%

3.46 Table 4 shows the Council's 2020-21 working budget and proposed changes across each service to provide a base budget for 2021-22, including:

Additional funding as follows:

- £1.9 million for general pay and price inflation. Welsh Government did not receive any additional funding through the Barnett formula to provide for public sector pay awards next year given the UK Government's decision to pause public sector pay rises. The settlement does not therefore provide for any increase in public sector pay, the implications of potential pay awards in 2021/22 will need to be accommodated within our budget plan. These are therefore included at 1%.
- £1.634 million for 2020-21 savings which have now proven to be undeliverable.
- £19.5 million of inescapable budget pressures including:
 - £635,000 to meet the 0.75% of the pay award for 2020/21 which exceeded the 2% accommodated within service budgets.
 - £178,000 to meet the 2.43% increase in the Mid and West Wales Fire and Rescue Authority annual levy.
 - £951,000 for the Council Tax Reduction Scheme (CTRS). An increase in the number of claimants has been seen during 2020/21. This is expected to continue and potentially rise into 2021/22 as the impact of the pandemic falls on businesses and residents. In addition, a proposed council tax increase level of 3.9%, will also need to be considered to meet the increased levels eligible under the scheme.
 - £2.26 million for the Education Service (including the Delegated Schools' Budget): supporting education improvement, the new ALN strategy, and pressures falling on Schools delegated budgets with an additional £1.5 million provided directly to schools, an increase of 2.4%.
 - £2.5 million to realign the Children's Service base budget to meet existing placements (an additional 45 placements have been made during the period of the pandemic although 8 of these have left the system after short term support), contractual obligations of providers and agency staff costs. Many of which are costs already impacting on the service and reflected in the Services spend in 2020-21 of £1.4 million overspend.

- £8.0 million to meet inescapable demand and cost pressures in Adult Social Care. £3.3 million of this investment will ensure the sustainability and quality in Care through our payments to providers of residential and domiciliary care.
- £2.76 million is provided to meet the revenue implications of the capital programme, as the Minimum Revenue Provision adjustment is fully utilised.
- £780,000 for Highways Transport and Recycling - to meet contract inflation across the service, additional costs in waste services and some support to deal with Ash Die Back along the county's highway.
- £528,000 for Property, Planning and Public Protection to support Compliance work and Trading Standards.

Reductions in funding as follows:

- £11.828 million of cost reduction proposals, the detail of which is provided at Appendix C, with Impact Assessments on each of the proposals attached at Appendix I.

3.47 Delivery of these cost reductions will be essential to deliver a balanced 2021-22 budget. Assurance must be provided to Council that the budget is robust and that the reductions included in it are deliverable. This will also enable the Council and the Statutory Chief Finance Officer (S151) to sign off the budget with confidence. For the proposed budget, sessions have been held with officers to challenge and test both the service pressures being submitted and the deliverability of each proposal presented. SLT has provided assurance to Cabinet that they can deliver the cost reductions within the required timescales, whilst also reflecting on any risks.

Financing the Draft Net Budget for 2021-22

3.48 The Council's gross 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 gross budget is financed by all the Council's income sources including AEF, council tax, fees and charges, specific grants and contributions from other bodies.

3.49 Income from fees and charges makes a significant contribution (£60 million+ per annum) to the Council's budget and the Council's approach to income generation is included in the MTFs. The Income and Cost Improvement Policy forms the framework within which income is reviewed annually.

3.50 The budget proposed for 2021-22 includes increasing of fees and charges in line with inflation, where permitted, and where appropriate, the principle of full cost recovery has been applied. The Fees and Charges register has been updated and it, together with an explanatory note, is attached as Appendix D and E.

3.51 The financing of the net budget comes from the Welsh Government settlement and Council Tax income. Table 5 summarises the 2021-22 budget requirement and how it will be financed and shows that Council funds 32% of the councils' net budget.

Table 5

£m	2020/21	2021/22	Change
AEF (RSG & NNDR Allocation)	184.289	191.897	7.608
Council Tax	85.151	88.767	3.616
Total Net Revenue Funding	269.440	280.664	11.224

- 3.52 As can be seen the balancing of the Council's 2021-22 budget is dependent upon a 3.9% increase in the Council Tax in 2021-22, generating £3.33 million and £285,000 delivered through changes to the tax base. In proposing this increase, consideration has been given to the impact of the pandemic and affordability for Powys residents together with the ongoing need to meet increasing demand and inescapable cost pressures on vital local services.
- 3.53 The setting of Council Tax is not subject to approval as part of this report, as this is a matter for full council determination. However, the report recommends the level of Council Tax to be included in the budget that goes to full Council on 25th February 2020. On 4th March full Council meets to set the Council Tax in line with the final budget. This meeting does not reopen the budget but ensures the Council sets Council Tax for billing purposes.

Draft Capital Programme 2021-31

- 3.54 The Capital and Treasury Management Strategies are fundamental to the effective delivery of the Council's priorities and Vision 2025. The provision of the right assets in the right place at the right time will ensure the effective and efficient delivery of a comprehensive range of quality services.
- 3.55 The draft strategy document at Appendix F provides a high-level, long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, whilst considering the risks how these will be managed and the implications for future financial sustainability.
- 3.56 Maintaining the capital programme has a significant regeneration impact for the economy of Powys alongside the direct effect of better infrastructure to deliver services. Capital investment also has a significant input into the delivery of revenue cost reductions, and it is essential that both budget strategies are developed in tandem.
- 3.57 Broadly the programme covers three areas of expenditure. These are:
- a core programme of schemes that are regulatory / statutory in nature, and minimise legal challenge or revenue risk, these schemes are related to day to day activities that will ensure the Council meets its statutory requirements
 - a retained asset programme to improve or enhance the life of existing assets, and
 - an investment programme in schemes linked to the Council's strategic priorities.
- 3.58 The key aims of the Capital Strategy are to:

- Provide a clear context within which proposals for capital expenditure are evaluated to ensure all capital investment is targeted to deliver the Council's priorities.
- Clarity about how the Council identifies and prioritises capital requirements and proposals arising from various strategies including the Vision 2025, Service Improvement Plans, and other corporate strategies, and how they will be managed within the limited capital resources available.
- Challenge our current estate, continue with the programme of asset rationalisation, ensuring that assets retained are effective, efficient and economically sustainable to deliver services.
- Identify and consider options available to fund capital expenditure that minimises the ongoing revenue implications of historic capital expenditure and of any new investments.
- Use partnerships, both public and private, more effectively to support our overall strategy.
- Establish effective arrangements for managing capital schemes including assessment of outcomes and achievement of value for money.
- The aim of this capital strategy is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

3.59 A Governance Framework is in place for the development of the Capital Programme, based on the Welsh Government Better Business Case approach, each project is developed through a series of gateways ensuring that the business case is robust and fully considers the benefits and costs of the individual project and that they align with Vision 2025. This enables the council to prioritise its capital investment whilst ensuring affordability.

3.60 The Council is moving away from an annual capital cycle and using the new framework will have an ongoing process of projects in development through to approval through Cabinet and Council as needed.

3.61 The Capital Strategy is attached as Appendix F. The strategy sets out the priorities for the next 10 years with the provisional Capital Programme totalling £559 million (including the Housing Revenue Account (HRA)). This is a significant commitment. The Capital Programme is included in Appendix F as part of the Capital Strategy.

3.62 The Council continues to invest in services that underpin the priorities set out as part of Vision 2025 as follows:

We will support our residents and communities:

- Housing - £230 million: The Council will continue to maintain the Welsh Housing Quality Standard achieved in 2018, and over the lifetime of the HRA business plan the service will look to invest in 250 new council dwellings.

- Housing and Community Development - £37 million: Including investment in our sports and Leisure centres. The colocation of libraries with other services continues and self-service technology enables our customers to make increased use of the resources. The Council will continue to fund a major programme of Disabled Facilities Grants enabled works and improvements to homes to improve the quality of life for people who need help to live as independently as possible. In addition, we will continue to support energy efficiency and bringing privately owned empty homes back into use through the SWAS (Safe Warm & Secure), Landlord Loans and the ZILF Co2i loan schemes.
- Highways, Transport and Recycling - £114 million: The Council has a statutory duty to maintain the adopted highway, maintained at public expense in a safe condition for the passage of the user. The strategy will see £29.5 million invested in our Highway network over the next 5 years. Powys County Council faces stringent Welsh Government (WG) statutory recycling targets. These are 64% for 2019-20 and 70% for 2024-25. In addition to this there is a target to reduce landfill to 10% by 2019-20 and 5% by 2024-25. This has required a step change in the way all local authorities approach waste and recycling. The continued capital investment in the Waste and Recycling service will ensure that the Council is able to meet the targets whilst obtaining maximum value from the service.

We will lead the way in effective, integrated rural health and care:

- Social Care - £1.6 million: The capital programme focuses on supporting those who wish to remain in their own home rather than residential care and supports the integrated Health and Care Strategy for Powys. The schemes focus on accommodation options and the use of assistive technology, which has a key role to play in the modernisation of health and social care and offers greater choice to our residents and supports independent living

We will strengthen learning and skills:

- Schools - £158 million: to provide learning environments that meet the aspirations of the WG's 21st Century Schools programme. Alongside this, capital funding through our major repairs programme will be focussed on where the need is greatest, as identified through the Schools Service's Asset Management Plan. Further investment will be required as the Transforming Education Strategy is implemented and the Capital Programme will be updated as these plans are developed and proposed.

We will develop a vibrant economy:

- Regeneration, Property and Development - £4.9 million: The Council needs to intervene where the private sector is not able to (for economic reasons) to create or facilitate investment in business units in order to keep and attract business to the County.
- County Farms - £600,000: Effective management of County Farms estate will enable us to continue to provide the opportunities already enjoyed by current

tenant farmers and maintain an income stream. The financial demands of the Estate need to be evaluated against the competing demands across the council whilst noting the estate produces an annual surplus and has made a considerable contribution in capital receipts.

Information Technology:

- The service engages with change programmes so that investment and resource meets identified priorities. In respect of infrastructure, Digital Services will invest in up to date cloud-based technologies, improved telephony and mobile systems, WEB and share-point and improved wireless. In terms of applications Digital Services is looking to rationalise the number of systems through investment in replacement of legacy corporate systems and improved integration between systems notably the WEB and Intranet.

3.63 The Capital Programme also identifies £14 million over the next ten years of unallocated investment which has been set aside to meet the costs of current pipeline projects and programmes currently being progressed through the Outline Business Case gateway. Also included is initial estimated funding for the Mid Wales Growth Deal.

Draft Treasury Management Strategy

3.64 A draft Treasury Management Strategy which is included within the attached Appendix F sets out how the Council will ensure that it has enough funding available to fund its revenue and capital requirements and an appropriate strategy for borrowing and investing for the financial year 2021-22 and details the expected activities of the Treasury function.

3.65 The Treasury Management Strategy and Annual Investment Strategy is recommended to Full Council for approval in February.

Prudential Indicators

3.66 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the local authority are affordable, prudent and sustainable. The statutory Prudential Indicators are shown in full within the Capital and Treasury Management Strategy Appendix F. The tables include the revised estimate for 2020-21, as well as the indicators through to 2029-30.

3.67 The key indicator of affordability is the estimate of the ratio of financing costs to net revenue stream, in section 3.17 of Appendix F. The ratio of financing costs for the council fund is 3.72% in 2020-21 rising to 5.95% in 2029-30. The amount of HRA income required to pay for financing increases is 20.54% in 2020-21 rising to 23.41% in 2029-30.

3.68 The capital financing requirement (CFR) is shown at section 2.35 of the Appendix and is the measure of the authority's underlying need to borrow for a capital purpose. It is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue. The CFR is £318 million in 2020-21 and will rise to £405 million by the end of 2029-30, and £105 million increasing to £150 million for HRA debt.

- 3.69 The operational boundary, in section 3.29 and authorised limits for external debt in section 3.32 both reflect the Treasury Management policy and are set at a level to be affordable and prudent.
- 3.70 The authorised limit for 2021-22 will be the statutory limit under Section 3(1) of the Local Government Act 2003. It is recommended that the level for the authorised limit is set at £492 million and the Operational Boundary is set at £478 million.
- 3.71 The Minimum Revenue Provision (MRP) Policy Statement is included at Section 2.39.
- 3.72 MRP is an annual charge that Councils are required to pay for their debt liability in respect of capital expenditure funded by borrowing, for both the general fund and the Housing Revenue Account debt. This capital expenditure is set out as part of the CFR calculation and updated regularly to reflect borrowing need changes and the resultant costs, it is important to ensure that the debt is repaid over a period commensurate with that over which the capital expenditure provides benefit.
- 3.73 MRP Overpayments - A change introduced by the revised Welsh Government MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31st March 2020 the total VRP utilised was £12.9m, with the expected total overpayments being £19.5m.

Reserves

- 3.74 The Council's reserves are key to our financial planning; maintaining these at an appropriate level is central to our financial resilience and sustainability. They provide a safeguard against risk, unusual events and future financial pressures.
- 3.75 In assessing the appropriate level of reserves, the Authority will ensure that the reserves are not only adequate, but also necessary and will be appropriate for the risk (both internal and external) to which it is exposed.
- 3.76 The Reserves Policy (Appendix G) 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.
- 3.77 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.
- 3.78 The levels of reserve we hold are not excessive but are nearer the minimum level of acceptability, we must not plan our budget on the basis of utilising our reserves, they must remain at a level that provides a reasonable level of financial resilience in an ever challenging environment.
- 3.79 The level of reserves held and their forecast use in 2020-21 is reported to Cabinet as part of the budget monitoring report and Table 6 below reports the opening and

projected balance of the reserves at year end. This is based on the position as at 31st December 2020.

Table 6

Summary - £'000	Opening Balance (1st April 20)	Forecast Addition / (Use) of	Forecast (Over) / Under Spend	Projected Balance (31st March 21)
General Fund	9,472	(70)	0	9,402
Budget Management Reserve	3,584	0	0	3,584
Specific Reserves	7,523	(1,400)	98	6,221
Transport & Equipment Funding Reserve	9,266	(5,516)	0	3,750
Total Usable Reserves	29,845	(6,986)	98	22,957
Schools Delegated Reserves	(910)	(1,036)	248	(1,698)
School Loans & Other Items	(350)	7	0	(364)
Housing Revenue Account	3,918	(1,379)	1,394	3,933
Total Specific Reserves	2,658	(2,408)	1,642	1,871
Total Reserves	32,503	(9,394)	1,740	24,828

3.80 MTFs Principle 6 is to maintain a minimum general reserve provision of 3% of net revenue expenditure over the period of 2021-26. The projected balance as at 31st March 2021 will be 4.8% in line with this principle.

3.81 The level of reserves held has been assessed alongside the overall budget proposal. This year the ongoing impact of the coronavirus pandemic has been a key part of the assessment.

In order to strengthen our financial position the council put in place an ongoing revenue risk budget as part of the overall revenue budget, and this has been maintained, this budget will be drawn upon in the first instance to support any unfunded pressures arising during the year.

Reserves held in the Transport and Equipment Fund, previously set aside to support the Capital Programme, will continue to be used in 2021-22.

3.82 The current and projected financial position of our Schools continues to be a challenge, the additional funding provided for 2020-21 has assisted in stabilising school budgets, the further funding provided in this year budget proposal will continue to assist schools in meeting the pressures they face, but it is essential that all Governing Bodies take action to provide a curriculum that can be delivered within the funding provided to them and ensure the implementation of deficit recovery plans. The school reserves are ring fenced but ultimately represent a potential council risk. It is essential that compliance work continues to be undertaken to ensure that school budgets are managed in accordance with regulations by Governing Bodies.

3.83 The use of these reserves will continually be reviewed particularly in light of the continued uncertainty arising from the pandemic and the funding made available to support it. The reserves position will be monitored carefully on a monthly basis as the financial year progresses. Under Section 26 of the 2003 Local Government Act,

an appropriate person (S151 Officer) must determine the minimum amount of General Fund Reserve.

Impact Assessment

- 3.84 There are Impact assessments for each of the service cost reduction proposals, attached at Appendix I. An impact Assessment for the whole 2021-22 budget has also been completed and will be scrutinised as part of the budget process.

4. Resource Implications and Section 151 Officer Opinion

- 4.1 The Local Government Act 2003 requires an authority's Section 151 officer to give a formal opinion as to the robustness of the budget estimates and the level of reserves held by the Council. This section of the report provides the Section 151 Officer's formal opinion.
- 4.2 Under Section 26 of the 2003 Act it is not considered appropriate for the balance of the Council's General Fund Reserves to be less than the maximum amount determined by an appropriate person, in this case, the Head of Finance and Section 151 Officer.
- 4.3 The draft budget has been produced within the framework of the draft MTFS. The introduction of scenario planning has ensured that the budget is developed in a prudent and flexible way, highlighting the risk faced by the Council as a result of changes in funding and increasing financial pressures, and offering some choice in how our resources are prioritised and the risk mitigated.
- 4.4 The process has been strengthened further with the continued development of Integrated Business Plans for each service, these plans capture the services' objectives and highlight their roles and responsibilities in supporting the Council's Vision 2025 Corporate Improvement Plan, along with the intended outcomes for service users and / or residents.
- 4.5 The Integrated Business Plans ensure that all elements of delivering the service are considered in a holistic way. Statutory obligations pay and price pressures, income streams, demographic changes and the impact on service demand, new responsibilities and changes in regulation are all thought through. Services assess options for service delivery, workforce and capital requirements, and calculate the budget requirement and the cost reductions that can be achieved whilst assessing the impact and risk associated with them.
- 4.6 The Council's MTFS guides the development of these plans and the 2021-22 implications are set out in the draft budget and draft 2021-2031 capital programme. A process of challenge and review undertaken with each Head of Service and the Executive Management Team provides assurance on the completeness and robustness of the estimates, whilst highlighting the risks associated with its deliverability.
- 4.7 This strategic approach to allocating resources ensures that the budget plan fully considers the delivery of Vision 2025, the transformation programmes we need to deliver and ensures that service improvement and appropriate levels of statutory provision are all included. Revenue and capital budgets are aligned and ensure that

our limited resources are prioritised to achieve maximum effectiveness in securing outcomes.

- 4.8 The level of cost reduction required in 2021-22 is again a significant challenge. When this is coupled with the ongoing need for improvement and the identification of further potential pressure in some services a prudent approach must continue to be adopted to support financial stability. Against that background, the draft budget includes a risk management allocation and the removal of prior years' unachievable savings from the 2020-21 budget adds resilience and robustness to our budget plan.
- 4.9 A series of documents and policies constitute the budget framework including the Reserve Policy. The need to hold an appropriate level of reserves has been brought to the fore as a result of the pandemic, the additional funding provided by Welsh Government has largely mitigated the financial impact of the pandemic on the Council, however, should the impact of the pandemic continue into future years the council may need to draw on its reserves to meet additional costs or supplement income losses. The level of revenue reserves held is appropriate to deal with this and unknown risks but and is consistent with the levels held by other councils. Even so, the position going forward will require reserves to be maintained at a prudent level. It is evident that, given the continued potential financial impact of the pandemic, future pressure and the need to deliver savings, the levels proposed in the budget and MTFS should not be reduced.
- 4.10 The current and projected financial position of our Schools continues to be a challenge. The additional funding provided for schools last year has helped stabilise school budgets this year and further funding provided within the budget proposal for 2021/22 will assist schools in meeting the inescapable pressures they face, but it is essential that all Governing Bodies take action to provide a curriculum that can be delivered within the funding provided to them and where appropriate implement their deficit recovery plans. The school reserves are ring fenced but, ultimately, represent a potential council risk. It is essential that compliance work is undertaken to ensure that school budgets are managed in accordance with regulations by Governing Bodies.
- 4.11 The Council has well established budget monitoring and internal control arrangements and these act as an effective early warning system in identifying potential problems and for managing potential areas of risk. This ongoing regular review highlights problems and risks early so that corrective action can be put in place and this is supported by a clear virement process which provides some flexibility to adapt expenditure patterns to meet changing needs and objectives.
- 4.12 The Local Government Revenue Settlement for 2021-22 again provides Powys with an increased level of funding. But there is no indication that this level of funding will continue beyond this year, the level of uncertainty surrounding the pandemic and its impact on the UK economy and public finances will be felt for many years to come.
- 4.13 The Council's budget is being set within this uncertainty. We continue to face significant pressures to manage the increasing demand for services whilst driving improvement across Social Care and Education. The proposed increase in council tax will help mitigate the position but the Council must seek other opportunities to identify alternative sources of funding.

4.14 Taking all the above into account, the Section 151 Officer concludes the estimates used in the budget proposal for 2021-22 are adequately robust but significant 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.

5. Legal Implications

5.1 The Solicitor to the Council (Monitoring Officer) has commented as follows:

5.2 The Report has been prepared in accordance with the requirements of the Local Government Act 2003 and the Local Government Finance Act 1992. In accordance with Section 25 of the 2003 Act, the Council must have regard to the advice of the Head of Finance (Section 151 Officer), as the Chief Finance Officer, regarding the robustness of the budget estimates and the adequacy of the financial reserves. This advice must be taken into account when considering the proposals in the Report and the recommendations from the Cabinet regarding the budget and the Council tax rate. In accordance with the Functions and Responsibility Regulations, agreeing the budget and setting the Council Tax rate under the 1992 Act is a matter for full Council. In accordance with Section 30 of the 1992 Act, the Council is required to set the Council tax for the next financial year on or before 11th March.

6. Members' Interests

6.1 The Monitoring Officer is not aware of any specific interests that may arise in relation to this report. If Members have an interest, they should declare it at the start of the meeting and complete the relevant notification form.

Recommendation:	Reason for Recommendation:
<p>That Cabinet approves in draft the:</p> <p>1. MTFs for 2021-2026 as set out in Appendix A to the report be agreed in principle.</p>	<p>To aid business planning and development of the budget over a three-year period</p>
<p>2. Draft Revenue Budget for 2021-22 with the inclusion of a 3.9% increase in Council Tax shown in the Financial Resource Model in Appendix B and Table 4 of this report.</p>	<p>Statutory Requirement</p>
<p>3. Fees and Charges Register in Appendices D and E.</p>	<p>To comply with Powys County Council Income Policy</p>
<p>4. Capital Strategy and Capital Programme for 2021-31 shown in Appendix F.</p>	<p>Statutory Requirement</p>
<p>5. Minimum Revenue Provision Statement as set out on Appendix F.</p>	<p>Statutory Requirement</p>

6. Treasury Management Strategy and the Annual Investment Strategy in Appendix F.	Statutory Requirement
7. Authorised borrowing limit for 2021-22 as required under section 3(1) of the Local Government Act 2003 at £492 million as set out in section 3.7 of this report.	Statutory Requirement
8. Prudential Indicators for 2021-22 as set out in section 3.66 to 3.73 of the report and Appendix F.	Statutory Requirement

Relevant Policy (ies):			
Within Policy:	Y	Within Budget:	Y

Relevant Local Member(s):	
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Person(s) To Implement Decision:	Chief Executive
Date by When Decision to Be Implemented:	1st April 2021

Contact Officer Name:	Tel:	Email:
Jane Thomas	01597 827789	jane.thomas@powys.gov.uk

Background Papers used to prepare Report:

Welsh Government Provisional Local Government Settlement 2021-22
 WLGA Welsh Government Draft Budget And Provisional LGF Settlement 2021-22
 Office for Budget Responsibility Economic and Fiscal Outlook November 2020
 Audit Wales Financial Sustainability of Local Government as a result of the COVID-19
 Pandemic

List of Documents

Appendix A Medium Term Financial Strategy
 Appendix B Financial Resource Model
 Appendix C Cost Reductions Proposals
 Appendix D Income Guidance Note
 Appendix E Fees and Charges Register
 Appendix F Capital & Treasury Management Strategy
 Appendix G Reserves Policy
 Appendix H Residents Survey Report
 Appendix I Impact Assessments