

**CYNGOR SIR POWYS COUNTY COUNCIL.**

**CABINET EXECUTIVE**  
**Date: 18<sup>th</sup> January 2022**

**REPORT AUTHOR:** County Councillor Aled Davies  
Portfolio Holder for Finance

**SUBJECT:** Draft Medium-Term Financial Strategy 2022-2027 and Draft  
2022-23 Budget and Capital Programme for 2022-2027

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**REPORT FOR:** Decision

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**1. Purpose**

- 1.1 To seek Cabinet's approval of the draft Medium Term Financial Strategy (MTFS) for 2022-27, which includes a Financial Resource Model (FRM) for 2022-27, a draft revenue budget for 2022-23 and a draft capital programme for 2022-23 to 2026-27.
- 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 2022/23. 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 The Medium Term Financial Strategy approved by Council in March 2021 identified the budget gap for 2022/23 and the following 3 years and provided the framework for addressing the projected funding gap.
- 2.2 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 together with the ongoing response to the pandemic. It is against this background, that the Cabinet and Executive Management Team (EMT) have reviewed and updated the Council's financial plans which have been developed as part of the overall strategic planning process alongside Vision 2025, the Council's Corporate Improvement Plan.
- 2.3 The updated draft Strategy captures the financial, regulatory and policy drivers affecting the council and identifies the Council's service and resource priorities for the next five financial years, it delivers a balanced budget for 2022/23, and indicative budgets for the following 4 years to March 2027.
- 2.4 The proposed Capital Programme reflects the existing commitments made in previous years as well as new schemes already approved.

- 2.5 Over the last ten years the Council's finances have been significantly impacted from funding settlements that did not cover the cost of inflation and service pressures which resulted in savings being required to balance the budget. This year the cost of responding to COVID-19 has caused additional and unprecedented pressures and additional financial support has been provided by Welsh Government during the last 2 years to support the Council's costs and loss of income which has been instrumental in sustaining our financial position over this period. Funding to support the Council's ongoing costs in response to the pandemic has now been included in the annual revenue settlement and we must manage these within our Revenue Budget from 2022/23.
- 2.6 Powys has received a positive settlement from Welsh Government for 2022/23 and for the first time in many years we have also received indicative allocations for the following two years. The settlement for next year ensures that the Council can meet the increased demand for our services, increasing inflationary costs, and support our investment in improvement and transformation.
- 2.7 The setting of our budget, and in turn council tax, will need to take account of the full range of funding sources available to us, as well as the pressures we face. The opportunity the settlement for 2022/23 provides must be considered in the context of our ongoing financial sustainability. Funding levels for 2023/24 and 2024/25 return to lower levels of increase, but these indicative allocations enable us to plan with more certainty over the next 2 years.
- 2.8 We must use the opportunity provided in 2022/23 to rebase our service budgets to meet the ongoing needs of our citizens. We will continue to face financial pressures that outweigh the funding provided and will continue to focus on improving efficiency and as far as possible protecting crucial front-line services from cuts whilst transforming and improving the quality of our services.
- 2.9 In May 2022 the Welsh Local Government elections will be held, and the current Cabinet will come to the end of its electoral term. Vision 2025 represents the long-term plans and aspirations of Powys County Council, and it will remain an important focus until a new Cabinet is formed.
- 2.10 The Vision 2025 Plan is reviewed annually to ensure that it continues to reflect the Council's operating environment and priorities and the 2022-25 Plan will be presented to Council for approval at the same time as the final MTFS is presented on 24 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.
- 2.11 During 2022, we will continue to focus on our six key equality objectives which are: improving outcomes for children living in poverty, preventing homelessness, enabling people with a disability to gain valued occupation, improving the availability of accessible homes, improving digital inclusivity, and ensuring equality of opportunity and taking action to close the pay gap for all our staff. We are also actively contributing towards creating a Net Zero public service by 2030 and have developed a Biodiversity Action Plan and Climate Change Strategy as part of our

ongoing efforts to reduce the negative impact that our activities have on the environment.

- 2.12 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.
- 2.13 The draft MTFS includes the:
- principles that will govern the strategy and a five-year Financial Resource Model (FRM), comprising detailed proposals for 2022-23 and outline proposals for 2023-24 to 2026-27.
  - Capital Financing Strategy and the Treasury Management Strategy; and Capital Programme for 2022-23 to 2026-27.
- 2.14 The Cabinet and EMT have developed the draft MTFS to guide the development of the proposed 2022-23 draft budget, the FRM 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.
- 2.15 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 2022-23 was published on 21 December 2021. This report provides a draft Budget for 2022-23 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 24 February 2022. The Welsh Government draft budget will be scrutinised and the final budget will be published on 1<sup>st</sup> March 2022 in readiness for approval on the 8 March 2022 so if there are any late changes these would need to be made and presented to Council at the meeting on the 3 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 2022-23 provides Welsh local authorities with a total increase of £437 million (9.4%) compared to 2021-22.
- 3.2 This is the first multi year budget since 2017 and the indicative Wales-level core revenue funding allocations for 2023-24 and 2024-25 are £5.3 billion and £5.4 billion respectively – equating to an uplift in the first year of £177 million (3.5%) and, in the second year, of £128 million (2.4%). These figures are indicative and dependent on current estimates of NDR income over the multi-year settlement period, and the

funding provided to us by the UK Government through the 2021 comprehensive spending review.

- 3.3 The Welsh Government budget sees an additional £1.3bn go direct to Welsh NHS to provide ‘effective, high quality and sustainable healthcare, and help recover from the pandemic’. The Budget also acknowledges the pressure faced by local authorities through close to an additional £0.75bn direct investment to the Local Government settlement up to 2024-25. Social care is seen as a priority in the budget, so in addition to the £0.75bn there is £60m direct additional funding to ‘drive forward wider reforms to the sector and place it on a sustainable long-term footing’. In 2022-23 more than £250m is provided for social services, including £180m funding provided within the £0.75bn Local Government settlement, direct investment of £45m plus £50m of additional social care capital relative to 2021-22.
- 3.4 The 2022-23 provisional settlement gave Powys Council a cash increase of £18.374 million (9.6%) on 2021-22, this includes adjustments to the 2021-22 base figure with a transfer in for the Social Care Workforce Grant, £205,000.
- 3.5 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                                 |               |                     |              |      |               |                     |              |   |
|---|---------------|---------------------|--------------|------|---------------|---------------------|--------------|---|
| Dataset <sup>1</sup>                                    | Powys         |                     |              |      | All Wales     |                     |              |   |
|   | 2021-22 Final | 2022-23 Provisional | % Difference | Rank | 2021-22 Final | 2022-23 Provisional | % Difference | % |
| Total Population <sup>2</sup>                           | 132,475       | 132,538             | 0.0%         | 18   | 3,163,125     | 3,171,125           | 0.3%         |   |
| Pupil Numbers - Nursery and Primary                     | 9,577         | 9,589               | 0.1%         | 6    | 261,664       | 260,454             | -0.5%        |   |
| Pupil Numbers - Secondary in year groups 7-11           | 6,452         | 6,452               | 0.0%         | 21   | 165,357       | 168,413             | 1.8%         |   |
| Free School Meals - Primary                             | 1,034         | 1,147               | 10.9%        | 3    | 45,270        | 48,459              | 7.0%         |   |
| Free School Meals - Secondary                           | 637           | 719                 | 12.9%        | 5    | 26,400        | 28,711              | 8.8%         |   |
| IS/ JSA/ PC/UC (not in employment) claimants - 18 to 64 | 1,782         | 3,139               | 76.2%        | 1    | 90,136        | 131,795             | 46.2%        |   |
| IS/ JSA/ PC claimants - 65+                             | 4,035         | 3,827               | -5.2%        | 12   | 100,207       | 95,063              | -5.1%        |   |
| IS/ JSA/ PC/UC (not in employment) claimants - all ages | 5,837         | 7,027               | 20.4%        | 7    | 191,132       | 228,728             | 19.7%        |   |
| SDA/DLA/PIP claimants - 18 to 64                        | 4,502         | 4,570               | 1.5%         | 19   | 142,657       | 146,859             | 2.9%         |   |

- 3.6 Overall Powys is ranked 6<sup>th</sup> of 22 councils in terms of its increase, the highest being Monmouthshire with 11.2% and the lowest Blaenau Gwent with an 8.4% increase. This position represents a significant improvement for Powys and builds on last year’s positive settlement.
- 3.7 Based on the provisional settlement Powys will receive £1,586 of funding per capita, compared to the Wales average of £1,611.
- 3.8 The Minister for Finance and Local Government made a clear statement that there is a need to respond to the pandemic and take vital actions necessary to address the climate and nature emergency, not only to support the Wales of today, but fundamentally shape the Wales of tomorrow – the Way we hand onto future generations.

- 3.9 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 2023-27**

- 3.10 Welsh Government have provided their first multi-year budget since 2017 and the indicative Wales-level core revenue funding allocations for 2023-24 and 2024-25 are £5.3 billion and £5.4 billion respectively – equating to an uplift in the first year of £177 million (3.5%) and, in the second year of £128 million (2.4%). As Powys is receiving uplifts along the line of the average settlement or above, these uplifts are used in the FRM, with 2% for the final two years.

### **Provisional Local Government Capital Settlement**

- 3.11 Following a review of their capital budgets, Welsh Government general capital funding for local government for 2022-23 will be set at £150 million, reduced from £177.837. This will increase to £200 million for the following two years, including £20 million in each year to enable authorities to respond to our joint priority of decarbonisation.
- 3.12 For Powys the capital budget is made up of two elements; the un-hypothecated (supported) borrowing element increases by £9,000, however the General Capital Grant allocation has reduced by £1.431m to £3.167m in 2022/23. The split is:
- Supported borrowing £38k - total £4.595 million
  - General Capital Grant £38k – total £3.167 million.

### **Final Local Government Settlement**

- 3.13 Welsh Government is due to publish its Final Budget and Final Local Government Settlement for 2022-23 on 8 March 2022. 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.

### **Current Year (2021-22) Financial Performance**

- 3.14 The in-year financial position as at 30<sup>th</sup> September 2021 is shown in Table 2 below. This position will be updated when the December closedown is completed, and we can provide a full year forecast as at quarter 3 (late January 2022). Thus far the forecast shows close to a break-even position. As part of the forecast, additional assumptions on the financial position are made regarding expected support from Welsh Government and delivery of cost reductions.
- 3.15 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.

**Table 2**

| Revenue Budget            | £'000       |
|---------------------------|-------------|
| Base Budget               | 279,806     |
| Cost Pressures            | 6,251       |
| Cost Underspends          | (8,434)     |
| Cost Reductions Shortfall | 2,958       |
| WG Future Support         | (745)       |
| Forecast Outturn          | 279,836     |
| <b>Deficit</b>            | <b>(30)</b> |

### Financial Impact of responding to the pandemic

- 3.16 The pandemic continues to have a significant impact on our financial position, and without the support from the Welsh Government Hardship fund we would be facing a deficit which would inevitably deplete our reserves and place the council at financial risk. This direct funding to support the financial impact of the pandemic will cease on 31<sup>st</sup> March 2022. The Finance Minister's statement recognises the progress of the pandemic and its ongoing impact on public services which continues to be highly uncertain. In considering how to manage pandemic support for local authorities the Minister has concluded the balance lies in providing funding in the first year through the Settlement. We must manage these costs within our Revenue Budget from 2022/23. We must clearly understand how the pandemic could continue to impact on our services, our costs and our levels of income into the new financial year and ensure funding is set aside for this outlay.
- 3.17 The Council has considered the ongoing impact of the pandemic and worked these costs into our service plans. These ongoing risks and associated costs have been estimated as part of the budget setting process for 2022-23, with up to £2.8 million forecast for additional cost and lost income next year, but, they may not be recurrent demands. Grant funding received from Welsh Government through the latter months of 2021-22 will, where possible, be held aside to contribute to service demands if they materialise, with one off use of reserve being made available if necessary. As there is still uncertainty about the course of the pandemic and the ongoing impact it could have on our costs or our ability to raise income through the medium term, recurrent Covid demands will be identified and prioritised for future budgets if needed.
- 3.18 We must 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. This is also critical in the assessment of the reserves the Council holds.
- 3.19 The following Risks have been identified by Services in their service plans:-
- increased levels of activity and staffing required to support it
  - staffing sickness and cover to manage demands
  - slippage in our capital schemes
  - Loss of income – fees and charges

- Personal Protective Equipment (PPE)
- Enhanced Cleaning in schools
- Impact on Council Tax collection rates and Council Tax Reduction Scheme demand

- 3.20 The Hardship fund made available £368 million to support Local Authorities in 2021/22 and we have drawn down £6 million of support for additional costs incurred and £0.7 million for lost income to date. In 2020-21 support was higher as we drew down £18 million to support costs incurred and lost income.
- 3.21 Opportunities have also shown themselves during this period, as some services have been delivered differently and at lower cost, and we have embraced these changes in our longer-term plans.
- 3.22 The impact of the Pandemic and restrictions have also fallen heavily on residents, communities and businesses in our County. The Council has continued to administer many Welsh Government schemes, awarding grants and rate relief to businesses, payments for care workers, the self-isolation payments, and more recently winter fuel support. These grants have provided our residents and businesses in excess of £95 million in support to date.

### **Council's Improvement Journey**

- 3.23 The Council has continued to make significant progress on its improvement journey during 2021 despite the ongoing response to the global pandemic.
- 3.24 In November 2021 the Council's Education Service received an Estyn Monitoring Visit Report confirming that the Service had been removed from the category of local authorities causing significant concern. Inspectors said that: Powys County Council was "judged to have made sufficient progress in relation to the recommendations following the most recent core inspection", which took place in 2019. This is an exceptional achievement which recognised the education improvement journey alongside the Council's long-term Transforming Education project. The findings of this report show that we have laid solid foundations on which we can further improve the Service to ensure the best outcomes for all our learners. During the same period assurance has been received from Welsh Government in this area. The Gateway Review of 21st Century Schools Programme in Powys conducted in 2021 resulted in a Delivery Confidence Assessment rating of Amber Green. It should be noted that the 'Gateway Assurance methodology is widely used across the United Kingdom's public sector's Programmes and Projects. The methodology uses a Delivery Confidence Assessment (RAG rating) that independent Review Teams use to determine the successful delivery of a Programme or Project at key milestones within their lifecycles. Around 10% of all Programmes and Projects (circa years 2020/2021) receive an Amber/Green outcome. In 2020, only 8% of Programmes and Projects across Welsh Government and wider Welsh public sector received an outcome of Amber/Green.'
- 3.25 The Youth Service have successfully achieved the Bronze Welsh Government Quality Mark. The assessors were impressed with the work of the service and the value placed upon the service at a corporate level.
- 3.26 Social Services has continued to work under the Business Continuity plan for the duration of the financial and performance year. Both Children's Services and Adult

Social Care have experienced significant pressures in terms of workforce availability and the level of increased demand on the services. In addition to this, Youth Justice and Mental Health services have been inspected and at the time of writing we are waiting for the formal outcome of these inspections. We also await the outcome letter of the annual performance review with Care Inspectorate Wales. Both services have continued to deliver the business-critical activities, and this is kept under regular review through Gold command.

- 3.27 Digital Transformation is well underway, improving customer access to services, the latest transformation with Council Tax paperless billing now available, we already have 12,535 residents with council tax access and 808 have already signed up for paperless billing. In total we now have 47,795 customer accounts and we have recently improved the My Powys Account. Improved telephony for the Council sets the first stage for our vision to improve customer access to services as set out in our digital transformation strategy.
- 3.28 The Economy team have been working hard to secure investment for Powys and managed to secure an impressive £29 million's worth of investment for Powys. This will secure funding for the canal restoration in Montgomeryshire, the purchase of strategic sites in Brecon and Llandrindod and fund the refurbishment of Theatre Brycheiniog. The broad range of funding secured will also support many green initiatives, support businesses, and provide digital training to many schools staff including support staff.
- 3.29 Broadband connectivity for communities is also gaining pace with over 21 different projects underway.
- 3.30 Powys County Council declared a climate emergency in September 2020 when the Council agreed to a cross-party motion on climate change. We have now developed a draft Red Kite Climate Vision and Strategy document which builds on that declaration. We launched the consultation on Powys County Council's draft Climate Strategy at this year's Winter Fair at the Royal Welsh Showground and the draft strategy is currently open for public engagement.
- 3.31 Housing Services have raised the standard of services to tenants with a recent survey showing an overall increase in satisfaction from 65% in 2019 to 71% in December 2021. We have increased the choice of affordable, secure homes to rent by completing the development of 32 new homes in Brecon and seven in Sarn. A total of 79 properties are currently in construction. The time taken to allocate a Council-owned home, has reduced from 22.73 days to 13.16 days, and we have maintained the delivery of aids, adaptations and disabled facilities grant-aided works to help people better enjoy their current homes. 'Moving on Up' whole-service redesign will improve the effectiveness of the housing team, with a strong focus on quality of service.

#### **Draft MTFS 2022-27**

- 3.32 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 out a five-year budget forecast for the resources that are likely to 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.

- 3.33 Implementation of the MTFS will continue to be led by Cabinet and Senior Leadership Team (SLT) <sup>1</sup>, 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 and Capital Strategy, Asset Management Plans and the Council's Transformation Programme.

### **Engagement, Scrutiny and Challenge**

- 3.34 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 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 helped define the priorities for the Council.
- 3.35 This year the budget survey closed on the 19<sup>th</sup> December and focused on post Covid-19 recovery, balancing the limited funding against growing demand for our services, using resources effectively to deliver the best outcomes for local people, and achieving the Council's key priorities. It allowed the public to provide views and insights on funding priorities, Council Tax levels and recovery plan. With an aim to align our communities' visions and expectations with those of the Council and Councillors, making Powys a fantastic place in which to live, learn, work and play. There were 493 responses.
- 3.36 Members of the Council have engaged in the budget planning process through 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.
- 3.37 This report presents the detailed draft budget for 2022-23 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, 2022-23 budget and 2022-27 capital programme are presented to full Council for approval on the 24 February 2022.

### **MTFS Principles**

- 3.38 The draft MTFS provides a set of clear principles which will drive the Council's budget and spending decisions over 2022-27 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.

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

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 4% of Net Revenue Expenditure (excluding the Schools Delegated budget) over the period of the MTFS.
7. Capital investment decisions will support the Council's corporate priorities and mitigate any statutory risks taking account of the return on investment and robust business cases.
8. Prudential borrowing will only be used to support the capital programme where it is affordable and sustainable within the Council's overall borrowing limits and the revenue budget over the long term.
9. Decisions on the treatment of surplus assets will be based on an assessment of the potential contribution to the revenue budget and the capital programme.
10. Budgets will be managed by members of SLT in accordance with the Council's Financial Procedure Rules.

### **Financial Resource Model**

- 3.39 The MTFS includes a Finance Resource Model (FRM) which provides a financial plan for the forthcoming five financial years. This is provided at Appendix B. The MTFS sets out a budget proposal for the next five years for the Council's future years' budgets based on the two-year indicative uplifts provided by Welsh Government and making several assumptions about cost drivers such as pay and price inflation and demographic change. All the scenarios include an annual council tax increase of 5% from 2023-24 onwards.
- 3.40 Table 3 sets out the gap between the Council's net budget requirement and the possible funding available until 2026/27 based on each of the scenarios in the MTFS. An overall gap of £14.48 million is shown and this will need to be addressed through realigning budgets to match the funding available.

**Table 3**

|                                 | 2022/23       | 2023/24       | 2024/25       | 2025/26       | 2026/27       |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
|                                 | £             | £             | £             | £             | £             |
| FRM Net Exp                     | 302,322       | 317,424       | 330,957       | 344,508       | 358,243       |
| Current Year Budget             | 279,782       | 302,322       | 317,424       | 330,957       | 344,508       |
| <b>GAP - each year</b>          | <b>22,541</b> | <b>15,101</b> | <b>13,533</b> | <b>13,551</b> | <b>13,735</b> |
|                                 | 0             |               |               |               |               |
| <b>Additional Funding</b>       |               |               |               |               |               |
| Council Tax increase -          | -4,166        | -4,601        | -4,851        | -5,074        | -5,327        |
| Settlement + 9.6%, 3.5%, 2.4% , | -18,374       | -7,359        | -5,223        | -4,457        | -4,546        |
| <b>Net Gap / (surplus)</b>      | <b>0</b>      | <b>3,141</b>  | <b>3,459</b>  | <b>4,021</b>  | <b>3,862</b>  |
|                                 |               |               |               |               |               |
| <b>Cumulative GAP</b>           | <b>0</b>      | <b>3,141</b>  | <b>6,600</b>  | <b>10,621</b> | <b>14,482</b> |

- 3.41 Table 3 includes recurrent future year cost reductions of £13.6 million in addition to the £7.7 million already identified, to balance the budget further reductions will need to be found, and/or increase council tax by more than 5% per annum over 2022 to 2027 to balance future years' budgets.

#### **Draft Revenue Budget 2022-27**

- 3.42 Integrated Business Planning continues across the Council and involves all council services for the next five years:
- Reviewing comparative performance data and benchmarking
  - 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.
- 3.43 This process is now embedded into the Council's planning framework and ways of working and has been delivered within the planned budget cycle.
- 3.44 Cabinet and SLT began the budget planning process for 2022-23 using the worst-case scenario in the approved MTFS (i.e. a budget gap of £11.7 million on the 2022/23 working budget, assuming a 5% increase in Council Tax). The finalising of Service integrated business plans in early autumn identified much higher levels of inescapable pressure and demand, much of which had arisen as a result of the pandemic, increasing inflation and higher prices for some goods. It was also recognised that some 2021-22 savings were now unachievable. Despite identifying more than £7.7 million of cost reduction proposals a significant budget gap remained before the provisional local government settlement was received in December 2021.

## 2022-23 Net Budget Requirement

- 3.45 The net budget requirement is the amount of budget the Council requires to fulfil its functions. It is calculated taking the output of each of the service integrated business plans; these identify the resource requirements for each service to deliver their statutory functions, Vision 2025 and service improvement objectives offset by budget reduction proposals.
- 3.46 Table 4 below sets out the proposed draft net budget for 2022-23 at £302,323million, including the Delegated Schools' Budget..

**Table 4: 2022-23 Draft Revenue Budget**

| £'000          | Base Budget    | Inflation    | Demography | Pressures     | Transformation | Savings        | 2020/21 Undelivered Savings | Budget 2022/23 | Variance      | % Increase  |
|----------------|----------------|--------------|------------|---------------|----------------|----------------|-----------------------------|----------------|---------------|-------------|
| Delegated      | 81,717         | 3,136        | -227       | 133           | 0              | 0              | 0                           | 84,759         | 3,042         | 3.7%        |
| Education      | 10,789         | 406          |            | 829           | 824            | (55)           | 0                           | 12,792         | 2,003         | 18.6%       |
| HTR            | 28,106         | 1,268        |            | 1,008         | 0              | (311)          | 106                         | 30,176         | 2,070         | 7.4%        |
| H&CD           | 5,305          | 386          |            | 0             | 0              | (172)          | 0                           | 5,518          | 213           | 4.0%        |
| PPPP           | 4,845          | 436          |            | 872           | 0              | (21)           | 50                          | 6,182          | 1,337         | 27.6%       |
| ASC Commission | 3,293          | 160          |            | 0             | 0              | 0              | 0                           | 3,454          | 160           | 4.9%        |
| ASC            | 67,266         | 784          | 623        | 9,129         | 55             | (3,329)        | 100                         | 74,628         | 7,363         | 10.9%       |
| Children       | 25,959         | 635          | 280        | 3,639         | 0              | (2,719)        | 0                           | 27,793         | 1,835         | 7.1%        |
| Finance        | 6,085          | 295          |            | 0             | 0              | (39)           | 0                           | 6,341          | 256           | 4.2%        |
| Transf/Comm    | 1,512          | 80           |            | 106           | 65             | (51)           | 0                           | 1,712          | 200           | 13.2%       |
| WOD            | 2,036          | 144          |            | 267           | 54             | (135)          | 120                         | 2,487          | 451           | 22.1%       |
| Digital        | 4,259          | 284          |            | 312           | 831            | (25)           | 819                         | 6,479          | 2,220         | 52.1%       |
| Legal          | 3,087          | 115          |            | 226           | 0              | (170)          | 123                         | 3,380          | 293           | 9.5%        |
| Corp           | 35,523         | 60           |            | 1,178         | 500            | (642)          | 0                           | 36,620         | 1,097         | 3.1%        |
| <b>Total</b>   | <b>279,782</b> | <b>8,188</b> | <b>676</b> | <b>17,699</b> | <b>2,329</b>   | <b>(7,668)</b> | <b>1,317</b>                | <b>302,323</b> | <b>22,541</b> | <b>8.1%</b> |

- 3.47 Table 4 shows the Council's 2021-22 base budget and proposed changes across each service to provide a base budget for 2022-23, including:
- Pay Awards – 2021/22 realignment and 2022/21 awards – National Agreement £5.942 million
  - Non- pay inflation £0.947 million
  - National Insurance 1.25 % increase £1.299 million
  - Demographic changes – Learning disability transitions and additional Looked after Children estimations - £0.676 million
  - Corporate Pressures – Fire levy and council tax reduction scheme - £0.622 million
  - Real living wage to be paid to carers estimated at an additional £2.3 million on current care contracts
  - Specific Services Pressures – contract inflation, remedial works, replace grant reductions, full year effect of part year social care placements, social care support for rising demand, post 16 transition support, local development plan - £14.777 million
  - Transformation – no longer funded by Capital Receipts, Revenue Budget, bids approved reflect Vision 2025 Transformational work £1.829 million and £0.50 million for redundancies.

Reductions in funding as follows:

- £7.7 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.

- 3.48 Delivery of these cost reductions will be essential to deliver a balanced 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 2022-23**

- 3.49 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.
- 3.50 Income from fees and charges makes a significant contribution (£65 million per annum) to the Council's budget and the Council's approach to income generation is included in the MTFS.
- 3.51 The budget proposed for 2022-23 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.
- 3.52 The financing of the net budget comes from the Welsh Government settlement and Council Tax income. Table 5 summarises the 2022-23 budget requirement and how it will be financed and shows that Council funds 30% of the Councils' net budget.

**Table 5**

| <b>REVENUE FUNDING</b>                 | 2021/22        | 2022/23        | Change        |
|--|----------------|----------------|---------------|
|  | £'000          | £'000          | £'000         |
| AEF (RSG & NNDR Allocation)            | 191,883        | 210,257        | 18,374        |
| Council Tax                            | 87,900         | 92,066         | 4,166         |
| <b>Total Projected Revenue Funding</b> | <b>279,783</b> | <b>302,323</b> | <b>22,541</b> |

- 3.53 As can be seen, the balancing of the Council's 2022-23 budget is dependent upon a 3.9% increase in the Council Tax in 2022-23, generating £3.45 million, and £0.71 delivered through changes to the council 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.
- 3.54 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 24th February 2022. On 3rd 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 2022-27**

- 3.55 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.
- 3.56 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.
- 3.57 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.
- 3.58 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.
- 3.59 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.

3.60 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. As referred to earlier Welsh Government undertook a Gateway Review in 2021 with a delivery confidence rating of Amber Green. A rare but positive assessment rating.

3.61 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 at Cabinet and Council as needed.

3.62 The Capital Strategy is attached as Appendix F. The strategy sets out the priorities for the next 5 years with the provisional Capital Programme totalling £371 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.

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

#### **Residents and the Community - We will support our Residents and Communities.**

➤ **Housing (£17m)-** The Council will continue to maintain, for all the homes it owns, the Welsh Housing Quality Standard (WHQS) with an ongoing capital programme in part funded through Welsh Government Funding and Borrowing. The Housing Revenue Account Thirty Year Business Plan demonstrates an affordable capital strategy alongside delivering the day-to-day landlord service and has key objectives linked to the Local Housing Strategy. The Council has completed the construction and letting of 39 new homes with a further 79 under construction and a further 198 under active consideration for future development (dependent upon site acquisitions, viability assessments and resolution of the phosphates issues affecting development of all types). 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, Housing Services 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.

➤ **Leisure Centres (£1.6m)-** The Leisure portfolio contributes to the preventative agenda, supporting the Public Health Wales Long Term Strategy (2018-30) as well as, health interventions such as the NERS program (National Exercise Referral Scheme), in collaboration with Powys Teaching Health Boards and General Practices, within Powys. Since 2019 the Council has approved a five-year programme which has already enabled significant, essential replacement of plant, fixtures, end-of-life equipment, structural materials, playing surfaces and decoration. The Capital commitment supports the Council's

'landlord' responsibilities as part of the leisure contract but also ensures that the buildings are fit for purpose, compliant, attractive and provide a positive customer experience. Leisure Services in Powys not only support the overall well-being of our 'residents and communities' and now more than ever, contribute to the 'health & care' agendas, providing early intervention and prevention programmes to help reduce the burden on health services. Also, as a collaborative partner to the School's Transformation Programme, enabling learning and development through specific opportunities that the service provides or facilitates. Leisure Services support and contribute to the 'economy' by hosting and delivering local, regional and national events and competitions which draws significant numbers of visitors from across the UK to utilise the facilities we have in Powys. This demonstrates the need for the facilities to be maintained and improved to an appropriate standard.

- **Waste Strategy (£1.8m)**- Powys County Council faces a stringent WG statutory recycling target of 64% for 2019/20 through to 70% for 2024/25. There is also a non-statutory WG target to reduce landfill to 10% by 2019/20 reducing to 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. A network of assets under the Council's control allows flexibility to adapt to any changing requirements within the industry and Government policy and legislation. Some of these schemes are linked to efficiency savings and service improvements in future years.

**Health and Care** – We will lead the way in providing effective, integrated Health and Care in a rural environment

- **Social Care (£0.8m)**- 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. This strategy acknowledges that people in Powys live longer and healthier lives than elsewhere in Wales and that Powys is a place aspiring to help improve the wellbeing of all people. Capital funding mainly focus on accommodation options, including supporting the building and redevelopment of facilities to increase the stock of supported living and extra care housing in collaboration with Powys Teaching Health Board and local Registered Social Landlords. There are also capital funding requirements for the 13 Powys owned care homes.
- **Children's Services** – In order to ensure a sufficient supply of appropriate, safe placements for children in care, as close to home as possible, investment is mostly focused upon small residential homes for children, with accommodation purchase and development of a range of placements in County to support the complex needs of young people who remain under the local authority's care. Welsh Government have been particularly supportive in offering investment to progress such developments, as mirrored in current Ministerial direction. The changes associated with ICF (Integrated Care Fund) through Regional Partnership Boards (RPB), identify long term collaborative projects that will require a financial commitment from all partners, including PCC over a period of time. This will need to be acknowledged as part of social care's transformation plans, associated with the future development of any such resource.

- **Assistive Technology** - has a key role to play in the modernisation of health and social care. With ever increasing technological advances, it offers a range of possibilities for greater choice, not only of how people can access the support they need, but also where and when they access support. In doing so, assistive technology enables people to take greater control, and to live independently for longer by preventing hospital admissions and premature moves to residential care. Enabling access to better accommodation options is essential in order to support independent living and reduce demand for other types of care.

### **Learning and Skills** – We will strengthen learning and skills.

- **Schools Transformation (£118m)**- The Council has developed a new ten-year Strategy to Transform Education in Powys 2020-30 with the implementation of a major capital investment programme that will ensure that schools in Powys have inspiring, environmentally sustainable buildings that can provide opportunities for wider community activity, including where possible childcare services, early years, ALN, multi-agency support and community and leisure facilities. This will also include developing a reliable, high quality digital infrastructure. The Council is investing £147m over the next ten years in its schools through the current Band A and Band B of the Welsh Government's 21st C Schools Programme. The 21st C Schools Programme has a 65% capital intervention rate for mainstream schools, 75% for special schools and it also offers a new and innovative funding route where the intervention rate is 85% for the Mutual Investment Model. The Council will develop its strategies to ensure maximisation of the potential investment opportunities that may be available via WG funding.

However, to deliver the full Schools Transformation Programme significant funding sources above what is currently included in the following Capital Programme will be required. Alongside this, capital funding through our major repairs programme will be focussed on where the need is greatest, as identified through the School Service's Asset Management Plan.

### **The Economy** – We will develop a vibrant economy.

- **Highways and Environment (£58m)**- 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. A strategic approach has been used to develop the HAMP in identifying and allocating resources for the management, operation, preservation and enhancement of the highway infrastructure to meet the needs of current and future customers. Current gross replacement cost of these assets is estimated at £4.4bn.

The highway network includes public rights of way, which are a major attraction to the county for visitors. There are 1,700 recorded bridge structures on the public rights of way network; most are Council assets. Several major bridges (over £100,000 each) need to be replaced within the next 5 years due to age. In addition, storm damage with increased rates of riverside erosion and rotting of timber is affecting many small to medium bridges (up to £50,000 each). A county wide inventory continues to be developed, to record bridge condition and forward plan for their replacement. Previously, this has been undertaken on a reactive basis.

Outdoor recreation assets are also a significant tourist attraction and can provide valuable opportunities to maintain and enhance biodiversity. There are two remaining building assets under management by the Service; investment is needed in one of them, to enable ongoing lease arrangements. Upgrades may also be required at Llandrindod Lake to meet new standards due to its designation as a reservoir.

- **Property (£0.2m)**- The vision is to ensure that through the Corporate Landlord initiative, the Council's assets are appropriately managed to provide safe, efficient, sustainable properties in the right locations to support the delivery of services and the achievement of key priorities. The Strategic Asset Board and Asset Management Plans are the mechanisms in place to help deliver these priorities, which will ensure close working and collaboration across all service areas and partner organisations such as NPTC / PTHB. The Property team will be supported in this crucial work with investment provided to procure a new Property Management database which will provide a single point of reference for all aspects of the Council's operational and investment estate. A provisional property disposals programme has been developed over the next 10 years.

**County Farms** - It is essential that the Council manages its agricultural estate prudently, efficiently, and professionally. Effective management of County Farms estate will enable the continued 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 in its trading account. The opportunity for capital receipts will continue to arise as reviews are undertaken at each tenant departure from the Estate. An Invest to Save initiative is being developed which will see investments made to the Farm Estate which should create opportunities for capital receipts and reduced revenue expenditure, for example barn conversions and subsequent sales.

- **Regeneration, Property and Development (£32m)**- The Council need 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. Abermule business park is one such scheme that sees the Authority developing a former Welsh Government site which otherwise would not have been developed in the short to medium term. Capital investment will also form an important part of supporting the regeneration and viability of town centres complementing the Welsh Government's Transforming Towns funding programme. An initial annual allocation of £2 million starting in 2022-23 has been included as the Council's contribution towards the Mid Wales Growth Deal. As the investment plans for the deal develop the funding will be released to the relevant projects on completion of the relevant governance and approval processes.

- **Information Technology (IT) (£2.5m)**- The service engages with change programmes so that investment and resource meets identified priorities. In respect of infrastructure, IT will seek to invest in up-to-date cloud-based technologies including 'Azure' cloud technologies, improved telephony and mobile systems, WEB and share-point and improved wireless as well as further enabling our staff to work in an agile manner.

In terms of applications, IT is looking to rationalise the number of systems through investment in replacement of legacy corporate systems and through modernisation

of systems and applications to improve integration and provide an improved customer journey.

Cyber resilience is also a key programme, since 2017 an active Cyber Security improvement plan has been in place which details improvements required to maintain our Cyber Security resilience and to maintain standards and accreditations such as Cyber Essentials Plus and PSN Accreditation. In order to maintain the council's resilience and standards, this investment and programme of work is key. This includes investment in tools to detect and prevent malicious activity, tools, processes and resources to maintain systems to prevent vulnerabilities from exploitation, systems to enable us to share and collaborate information digitally and securely without risk of unintended exposure and ultimately damage or complete loss of any of the council's data or systems.

- 3.64 The Capital Programme also identifies £9 million over the next five 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**

- 3.65 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 2022-23 and details the expected activities of the Treasury function. 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 2021-22, as well as the indicators through to 2026-27.
- 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 3.9% in 2020-21 rising to 4.1% in 2026-27. The amount of HRA income required to pay for financing increases is 17.0% in 2020-21 rising to 21.7% in 2026-27.
- 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 £324 million in 2021-22 and will rise to £387 million by the end of 2026-27, and £107 million increasing to £175 million for HRA debt.

- 3.69 The operational boundary, in section 3.28, and authorised limits for external debt in section 3.31 both reflect the Treasury Management policy and are set at a level to be affordable and prudent.
- 3.70 The authorised limit for 2022-23 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. For these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. On the 31st of March 2021 the total balance of previous voluntary revenue provision (VRP) stands at £7.11 million, of which £1.41 million relates to the HRA. There is no intention to reclaim any of this at this point.

## **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 There is no statutory minimum regarding the level of reserves that should be held. Instead, decisions should reflect the individual position of each council. Reserves are a finite resource and so their use to fund ongoing commitments creates a gap in the finances of future years and erodes our financial sustainability. Benchmarking shows that Powys' reserves are not excessive but are nearer the minimum level of acceptability; we must not plan our budget based on 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 used 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 30<sup>th</sup> September 2021.

**Table 6**

| Summary                       | Opening Balance (1st April 21) Surplus / (Deficit) | Planned Addition / (Use) of Reserves | Forecast (Over) / Under Spend | Projected Balance (31st March 22) Surplus/ (Deficit) |
|-------------------------------|--|--------------------------------------|-------------------------------|--|
| General Fund                  | 13,634   | (4,294)                              | 0                             | 9,340  |
| Budget Management Reserve     | 4,330  | 0                                    | 0                             | 4,330  |
| Specific Reserves             | 15,651   | 2,893                                | (357)                         | 18,187   |
| Transport & Equipment Reserve | 11,282   | (8,710)                              | 0                             | 2,572  |
| <b>Total Usable</b>           | <b>44,897</b>                                      | <b>(10,111)</b>                      | <b>(357)</b>                  | <b>34,429</b>  |
| Schools Delegated Reserves    | 3,251  | (52)                                 | 207                           | 3,406  |
| School Loans & Other Items    | (371)  | 7                                    | 0                             | (364)  |
| Housing Revenue Account       | 4,481  | (2,404)                              | 641                           | 2,718  |
| <b>Total</b>                  | <b>52,258</b>                                      | <b>(12,560)</b>                      | <b>491</b>                    | <b>40,189</b>  |

3.80 MTF5 Principle 6 is to maintain a minimum general reserve provision of 4% of net revenue expenditure over the period of 2022-27. The projected balance as at 31<sup>st</sup> March 2022 will be 4.7% in line with this principle.

3.81 The level of reserves held has been assessed alongside the overall budget proposal. For 2021-22 the ongoing impact of the coronavirus pandemic has been a key part of the assessment and to address further covid pressure on services, £1 million was set aside to assist council services with this recovery and £1.7 million set aside to help the wider Powys economy recover.

3.82. Other specific reserves were created at the end of the 2020/21 financial year:-

- Funding to assist in drawing support from other sources of recovery funding, including Levelling up Funding; match funding is required as leverage to draw upon this funding and it is proposed that £1 million is set aside in a specific reserve for this purpose.
- £2.241 million, be transferred into a specific Capital Financing Reserve to support the Council Capital Programme, reducing the Councils borrowing requirements and easing the pressure on the revenue budget
- £1.5 million to fund essential remedial works at council premises.

3.83 The financial position of our schools has been a concern for several years, but the Authority and our schools have made good progress in strengthening financial management arrangements and this was recognised in the recent Estyn Monitoring visit. The “Team around the School” approach, supportive guidance, additional training and the appropriate use of warning notices, recovery planning and removal of financial delegation have all strengthened financial management at schools

causing most concern. Schools' budgets have in the main stabilised in-year, but work continues to address the cumulative deficit balances. The school reserves are ring fenced but ultimately represent a potential Council risk. It is essential that this compliance work continues to be undertaken to ensure that school budgets are managed in accordance with regulations by Governing Bodies.

- 3.84 In the context of the need to maintain financial stability and flexibility moving forward on the advice of the Section 151 Officer, it is Cabinet's intention not to make any use of the General Reserve to fund the 2022/23 Budget.
- 3.85 The use of the Councils reserves will continually be reviewed, particularly considering the continued uncertainty arising from the pandemic. The reserves position will be monitored carefully 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**

- 3.86 There are Impact assessments for each of the service cost reduction proposals, attached at Appendix I. An impact Assessment for the whole 2022-23 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 minimum 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 considered. Services assess options for service delivery, their workforce and capital requirements and the cost reductions that can be achieved in submitting their calculated budget requirement.

The impact and risk associated with their proposals is explained. In addition, this year, Heads of Service have assessed the continued impact of the pandemic on their service costs and income streams and have identified the financial risk associated with it. The pressure this creates has been included in the draft budget proposal.

- 4.6 The Council's MTFS guides the development of these plans, and the 2022-23 implications are set out in the draft budget and draft 2022-27 Capital Programme. A process of challenge and review undertaken with Cabinet, each Head of Service, and the Executive Management Team provided 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 2022-23 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 continues to include a risk management allocation, and the removal of prior years' unachievable savings 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. Welsh Government have supported this risk in the last 2 years through the Hardship Fund but with the funding to support the ongoing pandemic now included in the settlement, the Council must ensure it can manage this risk appropriately into 2022-23.
- 4.10 The position going forward will require reserves to be maintained at a prudent level. It is evident that, given the continued financial impact of the pandemic, future cost pressures and lower funding settlements indicated, we will continue to need to deliver savings in the years ahead. To strengthen our financial resilience the minimum level of General Fund Reserve has been increased to 4% of the Net revenue budget; this does not mean that we increase the reserve as it is already at a level above this, but should there be a need to use reserves, our future plan will need to consider replenishing the fund to this level. On this basis the level of revenue reserves held is appropriate to deal with known and unknown risks.
- 4.11 The strengthening of financial management in our schools has seen a reduction in the number of schools in an unlicensed position, and the cumulative balances across schools has improved. The budget plan proposed sees additional funding allocated to schools delegated budgets to meet the financial pressures they face in 2022/23, including the ongoing response to the pandemic. It is essential that compliance work continues building on the progress made to date to further reduce the deficit balances held.
- 4.12 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.

- 4.13 The Capital Strategy contained within this report sets out the current investment plans across council assets and the funding arrangements that are in place. The Capital Programme continues to grow as new schemes are developed and delivered. Any additional schemes are subject to robust business cases and are set in the context of overall affordability regarding our Prudential Indicators. Regular reporting of performance against these indicators confirms that the current and planned programme continues to operate within the limits set. Clearly, this position will be kept under constant review, where the later years of the programme are refined as further information becomes available.
- 4.14 The Local Government Revenue Settlement for 2022-23 provides Powys with a welcome increase in funding and the inclusion of indicative funding provided for the following 2 years will enable us to plan with greater certainty over the medium term; this will allow more time for planning and delivering change. The opportunity the settlement for 2022/23 provides must be considered in the context of our ongoing financial sustainability; funding levels will be less generous in the next 2 years and there will still be some difficult decisions to make.
- 4.15 We continue to face significant pressures to manage the increasing demand for services whilst driving improvement across the Council. The proposed increase in Council Tax will help mitigate the position but the Council must continue to seek other opportunities to identify alternative sources of funding.
- 4.16 Taking all the above into account, the Section 151 Officer concludes the estimates used in the budget proposal for 2022-23 are adequately robust but a level of risk remains. Based on the assessment of reserves, the overall level is adequate but remains at the lower end of acceptability given the scale of savings required, the ongoing impact of the pandemic and the financial uncertainty facing the Council over the medium term.

## **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.

| <b>Recommendation:</b>  | <b>Reason for Recommendation:</b>   |
|---|---|
| <p><b>That Cabinet approves in draft the:</b></p> <p><b>1. MTFS for 2022-2027 as set out in Appendix A to the report be agreed in principle.</b></p>  | <b>To aid business planning and development of the budget over a five-year period</b> |
| <p><b>2. Draft Revenue Budget for 2022-23 with the inclusion of a 3.9% increase in Council Tax in 2022-23 shown in the Financial Resource Model in Appendix B and Table 3 of this report.</b></p> | <b>Statutory Requirement</b>  |
| <p><b>3. Fees and Charges Register in Appendices D and E.</b></p>   | <b>To comply with Powys County Council Income Policy</b>                              |
| <p><b>4. Capital Strategy and Capital Programme for 2022-23 shown in Appendix F.</b></p>  | <b>Statutory Requirement</b>  |
| <p><b>5. Minimum Revenue Provision Statement as set out on Appendix F.</b></p>  | <b>Statutory Requirement</b>  |
| <p><b>6. Treasury Management Strategy and the Annual Investment Strategy in Appendix F.</b></p>   | <b>Statutory Requirement</b>  |
| <p><b>7. Authorised borrowing limit for 2022-23 as required under section 3(1) of the Local Government Act 2003 at £492 million as set out in section 3.70 of this report.</b></p>                | <b>Statutory Requirement</b>  |
| <p><b>8. Prudential Indicators for 2022-23 as set out in section 3.66 to 3.70 of the report and Appendix F.</b></p>   | <b>Statutory Requirement</b>  |

|                               |          |                       |          |
|-------------------------------|----------|-----------------------|----------|
| <b>Relevant Policy (ies):</b> |          |                       |          |
| <b>Within Policy:</b>         | <b>Y</b> | <b>Within Budget:</b> | <b>Y</b> |

|                                  |  |
|----------------------------------|--|
| <b>Relevant Local Member(s):</b> |  |
|----------------------------------|--|

|   |                                  |
|---|----------------------------------|
| <b>Person(s) To Implement Decision:</b>         | <b>Chief Executive</b>           |
| <b>Date by When Decision to Be Implemented:</b> | <b>1<sup>st</sup> April 2022</b> |

|                              |              |                          |
|------------------------------|--------------|--------------------------|
| <b>Contact Officer Name:</b> | <b>Tel:</b>  | <b>Email:</b>            |
| Jane Thomas                  | 01597 827789 | jane.thomas@powys.gov.uk |

### **Background Papers used to prepare Report:**

Provisional Welsh Government Local Government Settlement 2022-23  
 WLGA Welsh Government Draft Budget and Provisional LGF Settlement 2022-23  
 Office for Budget Responsibility Economic and Fiscal Outlook November 2021

### **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 – to follow  
 Appendix J Council Wide Impact Assessment