

CYNGOR SIR POWYS COUNTY COUNCIL

CABINET EXECUTIVE

27th September 2022

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REPORT TITLE: Financial Planning Update

REPORT FOR: Information and Decision

1. Purpose

- 1.1 To provide Cabinet with an update on the Economic Context and how this is impacting on the development of the Councils Budget and the Medium Term Financial Strategy.

2. Background

- 2.1 The Medium Term Financial Strategy (MTFS), which currently covers the period 2022 to 2027, has been developed as part of the overall strategic planning process alongside Vision 2025, the Council's Corporate Improvement Plan. The strategy captures the financial, regulatory and policy drivers affecting the council and sets the direction and approach. It also incorporates the plan for delivering a balanced budget for 2022/23, and indicative budgets for the following 4 years to March 2027.
- 2.2 The financial strategy is the link between the organisation's long term service objectives and its financial capacity. It seeks to ensure that the Council's strategic objectives can be achieved within the confines of the financial resources available.
- 2.3 The current MTFS was approved by Council on the 3rd March 2022. Much has changed since that time, both in terms of the changing financial environment and a change in the administration of the Council.
- 2.4 It is therefore appropriate for the MTFS to be reviewed and updated to reflect the impact of the current economic situation and how that will impact on our financial plans, together with the direction set by the new Cabinet. This is important as the strategy will direct the development of the Councils financial plans and budgets for the next 5 years.

3. Economic Context

- 3.1 The current economic context is challenging. In March 2022 the Office for Budget Responsibility (OBR) published its report "Economic and fiscal outlook" in March 2022. The report provided an analysis and forecast of the UK's public finances.
- 3.2 Two years since the start of the pandemic, their Economic and fiscal outlook (EFO) was presented against the backdrop of another unfolding global shock with the Russian invasion of Ukraine. The conflict has major repercussions for the global

economy, almost immediately gas and oil prices peaked over 200 and 50 per cent above their end-2021 levels respectively. Prices have since fallen back but remain well above historical averages.

- 3.3 As a net energy importer with a high degree of dependence on gas and oil to meet its energy needs, higher global energy prices will weigh heavily on a UK economy that has only just recovered its pre-pandemic level. Petrol prices are already up a fifth since their October forecast and household energy bills were set to jump by 54 per cent in April.
- 3.4 The July 2022 CPI inflation rate is 10.1%, contributory factors include high energy prices and disruption to supply chains linked to geopolitical issues including Russia's invasion of Ukraine, and COVID-19 lockdowns in China. In May, the Bank of England (BoE) forecast that CPI would reach a peak of 10% in the final quarter of 2022, following the next energy price cap increase in the autumn. However, by mid-June the Bank had updated its forecasts to reflect rates potentially surpassing 11%. More recently the expectation is now for CPI to peak at 13% in Q4 2022, and to stay elevated throughout much of 2023, before falling below the 2% target in two years.
- 3.5 Higher inflation will erode real incomes and consumption, cutting GDP growth this year, the latest figures indicate that the UK economy continues to contract. The UK is now projected to fall into a recession from Q4 2022, with output expected to fall every quarter from Q4 2022 to Q4 2023, after which growth is expected to be very weak by historical standards.
- 3.6 The labour market has remained tight, meaning that there are far more vacancies than there are applicants, with the International Labour Organisation unemployment rate at 3.8% for May and vacancies at historically high levels. As a result of this, underlying nominal wage growth is expected to be higher than in the last MPR over the first 18 months. The labour market is expected to loosen slowly in response to falling demand and unemployment is expected to rise from next year.
- 3.7 One of the tools available to the Bank of England to try to stabilise inflation is to increase interest rates. In June 2022, rates increase from 1% to 1.25%, their fifth consecutive rise and the highest rate in 13 years. The Bank has indicated that it will react "forcefully" to any signs that inflation is becoming persistent, and there is a general expectation of further interest rate increases as the year progresses. Interest rate increases will be kept under close review in terms of their potential impact on the cost of borrowing and future capital financing budgets.
- 3.8 The increase in global energy and tradeable good prices has led to a squeeze on real incomes. A range of evidence suggests that this is weighing on consumption; spending on goods fell in both May and June. An ONS survey reported that 60% of households were spending less on non-essentials, while almost 50% said they were using less fuel at home and spending less on food. The impact of higher prices is likely to be felt more by those on lower incomes, because items such as food and energy make up a larger proportion of their income.
- 3.9 The bank and borrowing rates were provided below from Link Group and Capital Economics a little while ago. Their future forecasts will be guided not only by economic data releases and clarifications from the Monetary Policy Committee over its monetary policies, but the on-going conflict between Russia and Ukraine,

including the manner in which the West and NATO respond through sanctions and/or military intervention. Currently, oil, gas, wheat and other mainstream commodities have risen significantly in price and central banks will have to balance whether they prioritise economic growth or try to counter supply-side shock induced inflation.

Bank Rate													
	NOW	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Link Group	1.00%	1.25%	1.50%	1.75%	2.00%	2.00%	2.00%	2.00%	2.00%	1.75%	1.75%	1.75%	1.75%
Capital Economics	1.00%	1.25%	1.75%	2.25%	2.50%	2.75%	3.00%	3.00%	3.00%	3.00%	2.75%	2.50%	-
5yr PWLB Rate													
	NOW	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Link Group	2.28%	2.50%	2.50%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%	2.50%	2.50%	2.50%	2.50%
Capital Economics	2.28%	2.70%	3.10%	3.50%	3.60%	3.80%	3.60%	3.50%	3.30%	3.20%	3.10%	2.90%	-
10yr PWLB Rate													
	NOW	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Link Group	2.62%	2.80%	2.80%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.80%	2.80%	2.80%	2.80%
Capital Economics	2.62%	2.90%	3.20%	3.60%	3.70%	3.80%	3.70%	3.60%	3.50%	3.30%	3.20%	3.10%	-
25yr PWLB Rate													
	NOW	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Link Group	2.88%	3.00%	3.10%	3.10%	3.20%	3.20%	3.20%	3.10%	3.10%	3.00%	3.00%	3.00%	3.00%
Capital Economics	2.88%	3.00%	3.30%	3.70%	3.80%	3.90%	3.80%	3.70%	3.60%	3.50%	3.40%	3.30%	-
50yr PWLB Rate													
	NOW	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Link Group	2.60%	2.70%	2.80%	2.80%	2.90%	2.90%	2.90%	2.80%	2.80%	2.70%	2.70%	2.70%	2.70%
Capital Economics	2.60%	2.80%	3.10%	3.60%	3.70%	3.80%	3.80%	3.70%	3.60%	3.50%	3.40%	3.30%	-

This is the latest update from Link for September and the rates have increased in 3 months.

Link Group Interest Rate View	09.08.22												
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	2.25	2.50	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.00
3 month ave earnings	2.50	2.80	3.00	2.90	2.80	2.50	2.40	2.30	2.30	2.30	2.20	2.20	2.20
6 month ave earnings	2.90	3.10	3.10	3.00	2.90	2.80	2.70	2.60	2.50	2.50	2.40	2.30	2.30
12 month ave earnings	3.20	3.30	3.20	3.10	3.00	2.90	2.80	2.70	2.40	2.40	2.40	2.40	2.40
5 yr PWLB	2.80	3.00	3.10	3.10	3.00	3.00	2.90	2.90	2.80	2.80	2.80	2.70	2.70
10 yr PWLB	3.00	3.20	3.30	3.30	3.20	3.10	3.10	3.00	3.00	3.00	2.90	2.90	2.80
25 yr PWLB	3.40	3.50	3.50	3.50	3.50	3.40	3.40	3.30	3.30	3.20	3.20	3.20	3.10
50 yr PWLB	3.10	3.20	3.20	3.20	3.20	3.10	3.10	3.00	3.00	2.90	2.90	2.90	2.80

3.10 The economic context outlined above has significant implications for the Council's financial planning. These are summarised below and are key factors in framing the assumptions and cost drivers in 2023/24 and over the medium term.

Factor	Planning Implications
Inflation	Increase in costs across various categories of goods and service, Contractual arrangements driven by CPI/RPI, Impact on Pay Awards. Impact across Revenue and Capital.
Energy Crisis	Increasing energy costs across Council property, Schools, Leisure Centres, Offices, Street Lighting Fuel costs for vehicles and transport providers
Interest Rates	Cost of Borrowing and affordability of the Capital Programme
Economic Growth	Impact on future funding settlements for Local Government
Labour market	Shortage of staff leading to increasing costs for commissioned services and agency staff, real living wage

4. Understanding the impact

- 4.1 The Medium Term Financial Strategy approved by Council for the next five years and the assumptions contained within the strategy were based on the latest information available at that time. 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.
- 4.2 As set out in section 3 it is appropriate to update our strategy to reflect the changing economic climate and the additional financial burden that will now fall on the Council. This will increase the budget gap over the life of the plan which will need to be resolved by either generating additional income or reducing costs.
- 4.3 Our MTFs assumed 2% inflation non pay uplifts with some external contract uplifts identified as pressures and funded to CPI or other contract terms, but with inflation currently at 10.1% and set to rise further we must revisit the assumptions currently used in the Strategy. The creation of a procurement cell to review and monitor price and supply concerns is proactively considering the factors and their impact. This work is informed by national forums and guidance including Crown Commercial Services, WLGA.
- 4.4 Initial feedback from the procurement cell is seeing issues arising around Transport, Domiciliary Care (travel costs), some food items, vehicles and vehicle parts, and construction costs all of which are being managed currently but with continuing pressure and a growing consensus that high and volatile markets are with us for the foreseeable future, this will certainly change.
- 4.5 Increasing costs will need to be reconsidered in our plans. Both in terms of the current financial year and future years. To put this into context a 1% rise on non pay elements of our budgets would cost an additional £1 million. Each of the factors below will be regularly reviewed as we continue to see volatility.
- Energy Costs and the additional autumn rises (355% gas and 173% increase)
 - Fuel (42% increase)
 - Food (10%)
 - Capital Scheme costs
 - Cost of Borrowing – see section 5
 - Inflationary impact on contractual obligations (10% CPI)
- 4.6 Employee Costs are set to increase significantly from the assumptions included previously, pay awards are still subject to negotiation, but Welsh Government have agreed that Teachers pay will increase by 5% next year, then 3.5% in 2024/25 The National Employers for local government services have made a final pay offer to the unions representing NJC 'Green Book' employees is an increase of £1,925 across all pay points, this will equate to an average increase of 7.25% this year, with increases ranging from 10.5% to 1.29% across the scale points.
- 4.7 Pension Costs – The impact of the global situation on the investments and liabilities of the Powys Pension Fund will be considered in the Valuation exercise which is being undertaken this year. A new contribution rate for the Council will be set from April 2023. Recognising this risk in our plans a reserve has been set aside to help mitigate an increase in the rate, currently set at 25.6% of pay. There has been no

indication suggesting a change to the Teacher Pension Scheme but the actuarial review for this scheme will potentially impact on 2024/25.

- 4.8 National Insurance - The Employers' National Insurance changes associated with the move to the Health Social Care Levy are factored into the Council's 2022/23 Budget. No further significant changes to National Insurance rates or thresholds are currently anticipated over the period to 2026/27 but this position will be kept under review.
- 4.9 The Council is a Real Living Wage (RLW) Employer and an advocate of RLW. In 2022 Welsh Government announced that they would provide financial support for Local Authorities, to support the payment of the Real Living Wage in the Care Sector and this has been implemented across Powys with a wider aspiration to become accredited for both its employees and those who provide services to the council. To implement this across providers and contracts would cost in excess of £1m and be a competing priority in the FRM.
- 4.10 We have updated the strategy to reflect these proposed increases and considered further increases for 2023/24 as inflation is unlikely to fall when negotiations for that year begin.
- 4.11 The Council purchases its energy via Crown Commercial Services (CCS). Energy commodity markets have experienced unprecedented price increases for both electricity and gas. Whilst pressures commenced last Autumn, they have been exacerbated by the impact of Russia's invasion of Ukraine. This has resulted in a worsening of energy price projections via CCS in recent months. Market prices have continued to rise even further over the last few weeks. While the prices for the forthcoming winter remain the most expensive, prices across the seasons have now moved up sharply. Gas prices have increased by a further 60% and electricity 15%.
- 4.12 Energy costs are expected to increase by more than £7.6 million in 2023/24 across schools, street lighting and the Council's other estate. The situation will require careful monitoring as prices are susceptible to further change, and there will be a need to proactively plan for mitigating actions, including review of energy usage.
- 4.13 The cost of living challenge is not only impacting on the goods and services the council procures but is also impacting on our local businesses and residents and this is likely to create additional pressure on the Council and its services.

- Increasing homelessness
- Referrals to Social Services
- Increasing levels of debt owed to the Council
- Council Tax collections rates
- Money Advice, Benefits support, Council Tax Reduction Scheme

5. Ongoing impact of the COVID Pandemic

- 5.1 The pandemic had a significant impact on the council and our financial position in previous financial years. The Welsh Government put in place a COVID-19 Hardship Fund to support Local Authorities with additional costs and income loss directly resulting from the pandemic. During the financial years 2020/21 and 2021/22, we received £32 million support from the fund. This direct funding to support the financial impact of the pandemic ceased on 31st March 2022 and we are now

managing these costs and lost income within our Revenue Budget from 2022/23. This year we have supported services with £1.7 million from the funding that we set aside thus far this year. We must clearly understand how the pandemic could continue to impact on our services, our costs and our levels of income into 2023/24 and beyond and factor this into our plans.

- 5.2 Individual Service areas have considered this as they refreshed their Integrated Business Plans over the summer, although embedded in business as usual the pandemic is still having an impact on service delivery and pressures of £3 million have been identified.

6 **Capital Programme**

- 6.1 The Capital and Treasury Management Strategies are fundamental to the effective delivery of the Council's priorities, although it is a separate document this strategy is a fundamental part of the MTFS. <https://powys.moderngov.co.uk/documents/s68534/Appendix F Capital Strategy and Treasury Management Strategy 2022-27.pdf>
- 6.2 The provision of the right asset in the right place at the right time will ensure the effective and efficient delivery of a comprehensive range of quality services. The table below summarises the overall capital expenditure plans (excluding GCRE) and how these plans are being financed. Any shortfall of funding resources results in a requirement to fund through borrowing, this figure is shown as the net financing need

	2022-23	2023-24	2024-25	2025-26	2026-27
Council Budget	83,294,824	67,547,042	51,632,857	32,423,080	19,963,550
<i>Funded by</i>					
Capital grants & other contributions	36,187,037	42,887,040	30,949,172	9,782,200	7,598,000
Capital Receipts	2,385,202	2,248,000	1,248,000	1,248,000	1,248,000
Revenue contributions	4,346,303	2,185,427	5,551,910	4,060,080	3,000,550
Net financing need (borrowing)	40,376,282	20,226,575	13,883,775	17,332,800	8,117,000
HRA Budget	31,195,428	33,122,793	33,433,631	23,643,101	21,751,788
<i>Funded by</i>					
Capital grants & other contributions	5,832,000	5,832,000	5,832,000	5,832,000	5,832,000
Capital Receipts	0	1,000,000	1,000,000	0	0
Revenue contributions	6,837,000	5,800,000	5,800,000	5,800,000	5,800,000
Net financing need (borrowing)	18,526,428	20,490,793	20,801,631	12,011,101	10,119,788

- 6.3 Paragraph 3.9 above sets out the projected inflation and borrowing rate increases that will affect the councils cost of borrowing in future years. The cost of borrowing is a revenue cost. The Council currently has a position whereby it utilises its cash reserves first rather than take out long term borrowing, to minimise the cost of borrowing. This financial year we will be required to utilise reserves to support the "Financial Budget Risks" identified through budget setting and this cash reduction alongside normal demands will result in additional borrowing.
- 6.4 The table below models the impact of the increased PWLB borrowing rates. Based on the current borrowing requirement for the next three years this equates to an additional £613k required in base revenue budgets. Over the next 50 years (assuming we borrow for 50 years PWLB) this will cost over £30 million. The modelling is similar for the HRA, three year costs of £366k, £18m over 50 years.

£	2022-23	2023-24	2024-25	Total
Council borrowing	40,376,282	20,226,575	13,883,775	74,486,632
PWLB borrowing rate (Dec 21 estimate)	2.00%	2.30%	2.50%	
Annual costs (Dec 21 estimate)	807,526	465,211	347,094	1,619,831
PWLB borrowing rate (Current estimate)	3.20%	2.80%	2.70%	
Annual costs (Current estimate)	1,292,041	566,344	374,862	2,233,247
Increase	484,515	101,133	27,768	613,416
Total Increase Over 50 years	24,225,769	5,056,644	1,388,377	30,670,790
HRA Borrowing	18,526,428	20,490,793	20,801,631	59,818,852
PWLB borrowing rate (Dec 21 estimate)	2.00%	2.30%	2.50%	
Annual costs (Dec 21 estimate)	370,529	471,288	520,041	1,361,858
PWLB borrowing rate (Current estimate)	3.20%	2.80%	2.70%	
Annual costs (Current estimate)	592,846	573,742	561,644	1,728,232
Increase	222,317	102,454	41,603	366,374
Total Increase Over 50 years	11,115,857	5,122,698	2,080,163	18,318,718

6.5 It is essential we utilise our capital appropriately and all bids follow the approval gateway. The Council has strengthened its scrutiny and challenge of the Capital Programme through the Schools Capital Oversight Board and more recently the Capital Oversight Board. These Boards seek assurance that projects are prudent, affordable and will deliver tangible benefits over the long term.

6.6 The Capital Programme will be reviewed and reconsidered during the Autumn to ensure that the revenue implications of capital expenditure is accurately reflected in the FRM and that the capital expenditure plans of the council remain affordable, prudent and sustainable.

7. Other Pressures

7.1 Service specific pressures are being reviewed by the Senior Leadership Team, these will consider demographic changes, specific contractual arrangements and legislative changes and will undoubtedly create additional pressure in our plans. Managing and mitigating these will be a key focus as the budget develops over the next few months.

8 Future Funding

8.1 The net revenue 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, the Corporate Plan and service improvement objectives offset by budget reduction and additional income proposals.

8.2 The financing of the net budget comes from the Welsh Government settlement and Council Tax income. Assumptions for these elements are key in developing our plans.

Funding £'000	2022-23	2023-24
AEF (RSG & NNDR)	- 210,261	- 217,620
Council Tax	- 91,611	- 96,190
	- 301,872	- 313,810

- 8.3 Welsh Government have issued indicative allocations for the Revenue Support Grant for both 2023/24 and 2024/25 at 3.5% and 2.4% respectively, these were issued in March. These figures are indicative and dependent on current estimates of NDR income over the multi-year settlement period, and the funding provided to WG by the UK Government through the 2021 comprehensive spending review. 2% is assumed across the remaining years of the strategy.
- 8.4 Council Tax increase is currently modelled at 5% year on year increase. Cabinet have not yet discussed the level at which Council Tax will be set, the percentage used is for illustrative purposes only at this stage and is based on the figure originally included in the MTFs approved by Council March. In proposing the final level of increase for the 2023/24 budget, consideration will be given to the affordability for Powys residents, together with the ongoing need to meet increasing demand and inescapable cost pressures on vital local services.
- 8.5 Income from fees and charges makes a significant contribution (£74 million per annum) to the Council's budget and the Council's approach to income generation is set out the Councils Income Policy, fees and charges will be reviewed in line with this policy will be presented in the updated Fees and Charges Register, which will be presented with the budget papers annually for approval. The council's policy is based on the principle of full cost recovery and inflationary uplifts will be considered to ensure that the Council can continue to recover its costs for the services it provides.
- 8.6 In addition to the AEF, Councils also receive specific grants which are accompanied by specific terms and conditions as to how they can be used. We will receive around £55 million of grant funding next year. The indicative allocations provided are now likely to fall short in covering the costs expected due to the impact of inflation. As we finalise our budget for next year this will need to be discussed with the funding bodies and plans realigned accordingly.
- 8.7 As can be seen at paragraph 6.2, the Capital Strategy also relies heavily on grant funding to support the capital programme each year.

9. Revised Financial Resource Model and Budget Gap

- 9.1 The assumptions included in the original MTFs have all been reviewed in light of the circumstances described in the earlier sections of the report. The revised Financial Resource Model (FRM) is currently being challenged by the Senior Leadership Team before being included in the updated Medium Term Financial Strategy.
- 9.3 The assumptions will continue to be reviewed as the budget process progresses, and these will inevitably lead to further changes in our financial modelling. Council tax levels included are purely for modelling purposes at this stage, and have been maintained at levels modelled previously notwithstanding that the gap has increased.

- 9.4 Over the summer, the Senior Leadership Team have been asked to review their IBP's identifying service specific pressures but also proposing ways to reduce expenditure, increase income or make savings.
- 9.5 Where proposals can deliver earlier savings and where no policy decision is required and there is no impact on our residents, they will be implemented as soon as possible. This will maximise the possibility of securing full year savings in 2023/24 whilst also assisting in mitigating the pressure already being seen in the current financial year.
- 9.6 Over the next few months Cabinet will be setting the direction and developing the objectives that shape the Council over the next 5 years and when finalised the MTFS will need to be reviewed and updated to ensure that the financial plans for the council can deliver the new Corporate Improvement Plan within the confines of the financial resources available.

10. Strategy to bridge the gap

- 10.1 The MTFS sets out the approach and the principles that will be applied as our plans continue to be developed.
- 10.2 The following strategies will continue to be used to address the gap where feasible: -
- The transformation of service provision.
 - Improved efficiency and a "Right First Time" ethos.
 - Undertaking service reviews using the information to change
 - Identification of investment opportunities and income.
 - Capital Programme – reviewed, opportunity to invest.
 - Cross Cutting Themes.
 - Income generation/fees and charges.
 - Reconsider the levels of Council Tax increase.
 - Some service reductions – ceasing or reductions to levels of service.
 - The use of the Spend to Save reserve to support transformation.
 - The raising of capital receipts to support capital investment.
- 10.3 In the interests of financial resilience, reserves should not be relied upon as general budget funding. This is because:
- It creates a gap in the finances of the following year as reserves are cash sums.
 - Earmarked reserves are set aside for a particular purpose.
 - Reserves are an important part of financial resilience, providing a cash buffer.
 - Cash in reserves is not idle; it generates investment income in line with the Treasury Management Strategy and avoids the need for short-term borrowing.

11. Budget Position for 2022/23

- 11.1 Much of what has been mentioned in this report is already having a significant impact on the Council in the current financial year. At Quarter 1 it was reported that £3.8m was projected to be drawn from specific reserves set aside to deal with already identified pressures and the ongoing impact of the pandemic on services. In addition a further shortfall of £1million was also forecasted.

11.2 The recent pay award offers which are still being negotiated exceed the level of funding set aside by the council. With Teachers pay increasing by 5% from September 2022 and the current NJC offer projected at an average increase of 7.25% back dated to April 2022, this alone will add a further significant pressure of £4.9 million to this years budget. Together with further pressure from inflation and supply chain issues the Quarter 2 position will show a worsening picture with an increasing deficit putting increased pressure on the Councils reserves.

12. Financial Resilience

12.1 The Council must put financial resilience at the forefront of its financial activities and draws upon the support from Audit Wales who undertake regular pan Wales assessments on councils' financial sustainability.

12.2 The findings of the Powys Financial Sustainability review published in July 2021 set out three proposals for improvements –

- addressing the medium term budget gap,
- ensuring that the ambitious capital strategy is affordable, and
- continues to ensure that it monitors whether its budget planning processes are having the desired effect and helping to prevent significant overspends in key service areas.

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

CIPFA Pillars of Financial Resilience



12.4 Significant progress has been made to improve financial resilience and is evidenced in the Audit Wales review and documented as part of our Financial Management (FM) Code Assessment. This is a self-assessment that Powys has undertaken in 2021, which is designed to support good practice in financial management and assist local authorities in demonstrating their financial sustainability.

13. Financial Risks

13.1 At a time when the Council is facing unprecedented challenges, the effective management of risk is needed more than ever. The Risk management framework that we have in place ensures that we identify, consider and manage risks appropriately. There are a number of risks identified in terms of our financial planning and these are summarised as follows:-

Budget Delivery Risks

- Change Delivery Capacity
- Delivery of Cost Reductions
- Political Approval of Budget
- Economic Factors
- COVID

Funding Risks

- Variations to Settlement Assumptions
- Grants
- Income
- Debt management & recovery
- Treasury Management

Demand and Service pressure

The effective monitoring and managing of these risks supports our financial resilience and as our plans are finalised the risks will be assessed and provision to mitigate them will be considered through the continued use of the revenue risk budget and the level of reserves that we will maintain.

14. Reserves

14.1 The Council's Reserves Policy establishes a framework within which decisions are made regarding the level of reserves held by the Council and the purposes for which they will be maintained and used. This is a key component of the MTFs as a sound reserves policy is essential to underpin the financial sustainability of the Council.

14.2 The use of reserves and the levels at which they are maintained is determined on an annual basis as part of the Council's budget setting process following a risk based assessment. In the main reserves are held corporately rather than service based, except where specific reserves and their use have been agreed.

14.3 The Council faces a continuing financial challenge, and it is essential that a prudent reserve level is in place to ensure enough financial capacity is available. This cannot be stressed too highly given the level of cost reductions, the risk inherent in the budget and the significant challenge to balance the budget over the medium term.

15. Stakeholder Communication & Engagement

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

- Provide clear and honest information about the budget position and future challenges

- To raise awareness of the Corporate Plan and engage stakeholders to capture their views, to inform the Cabinet's and Full Council's decision-making process around budget setting
- To engage and consult, considering the Equalities Act 2010, and in accordance with the National Principles for Public Engagement in Wales e.g. timely, genuine, due regard etc.

15.2 Public Communication and Engagement - Over the past few years, the Council has sought to engage residents in the decision making process around setting a balanced budget using various approaches. The cost reductions subsequently agreed by the Cabinet and ratified by Full Council have then led to service managers needing to develop more detailed proposals which have, in the main, gone out for public consultation. This has created a further opportunity for affected residents to influence service delivery and have their say.

Appropriate methods of engaging with our residents are considered and implemented on an annual basis.

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

The Finance Panel and Scrutiny Committees also play an effective role in the development of the MTFs through the scrutiny process.

Cabinet are committed to open and transparent engagement with all members of the Council. Working together at a local level is critical to ensure that the whole Council understands and participates in finding the solutions to navigate us through this challenging time.

16. Budget timetable

16.1 The draft Budget Timetable was published in July in line with the Council's constitution and is set out at Appendix B. The timetable allows for SLT / EMT and Cabinet to shape the draft budget, alongside engagement with Council and Scrutiny committees through the process. It is again anticipated that the draft and final settlements from Welsh Government will be delayed.

17. Resource Implications

The Head of Finance (Section 151 Officer) has provided the following comment:

17.1 This report identifies the factors and the implications that they have on the Council financial plans. It refreshes the Medium Term Financial Strategy updating the assumptions upon which it was originally based and sets the policy framework and direction in which the budget proposals will continue to be developed.

17.2 The current volatility dictates that we will keep the position under constant review and we will continue to update our assumptions and their impact on the FRM as required.

17.3 Discussions at a national level will be very important as we move through the Autumn and we will work closely with other Authorities and the WLGA to ensure that the impact the current economic position is having on the Council is fully understood, together with the implications this will have on our ability to deliver appropriate Council services to our residents.

18. Legal implications

The Head of Legal & Democratic Services (Monitoring Officer) as no comment with this report.

19. Data Protection

There are no data protection issues within this report.

20. Comment from local member(s)

This report relates to all service areas across the whole County.

21. Impact Assessment

No impact assessment required.

22. Recommendations

22.1 Cabinet acknowledge the changing environment in which our plans are being developed and agree with the revised assumptions that are being used to support the development of the MTFS; and that work will continue to update and refresh the MTFP as appropriate.

22.2 To agree the budget principles set out in the MTFS to bridge the budget gap over the next 5 years.

22.3 Agree that the Senior Leadership Team continues to work with the relevant Portfolio Cabinet Member(s) to identify potential savings to assist in addressing the indicative budget gap across the period of the Medium Term Financial Plan.

22.4 Delegate to the Chief Executive, in consultation with the Leader and Cabinet Member for Finance, the authority to implement any saving proposal in advance of 2023/24 where no policy recommendation is required.

22.5 This report is presented to Finance Panel for their scrutiny and feedback.

2023/24 BUDGET PLANNING TIMETABLE

Date	Meeting/ Responsibility	EMT, SLT and Cabinet Activities
May	SLT	Review outturn position at a detailed level
June	SLT	Template for VFM, cost drivers, outputs, benchmarking presented for Education
June	SLT	Template for VFM, cost drivers, outputs, benchmarking presented for Household Waste
22-Jun	SLT	Develop budget planning, timetable, MTFS
5th July	Cabinet	Review Outturn Reports
27th July	SLT	Develop budget planning, MTFS etc
July	Cabinet / EMT	MTFS modelling
July / Aug	Cabinet	Sign off updated MTFS - to Cabinet in Sept
July	Cabinet Seminar	Capital review and reserves
11th Aug	July	Budget planning work
31st Aug	SLT	IBP 1st draft - if feasible to link to CIP
Early Sept	Political Groups	S151 and political groups - updates on budgets
6th Sept	Cabinet / EMT / SLT	Budget update if needed
Sept	WG	Autumn spending review
Sept	Finance	Collate all savings and growth proposals in IBPs
Sept	Finance	Collate the capital proposals identified through the IBP - if any as we know bids can be submitted through the year
Sept	Scrutiny	Scrutiny engagement
Sept	Cabinet / EMT / SLT	Decide on public engagement re budgets and work up approach
Sept	Finance Panel	Budget consultation and budgets
October	IBP Service Panels	Various dates - Each Head has a panel challenge event in Oct
October	WG	Draft Settlement
October	Group Leaders	Alternative budgets timetable agreed
1st and 14th November	Cabinet / EMT / SLT	Budget workshop
November	Council	Budget seminar
November	SLT/Comms	Planning the budget consultation
November	Scrutiny	Scrutiny
November	Group Leaders	Budget Update
22-Nov	Cabinet	Set council tax base
Nov / Dec	Comms	Budget consultation with public goes live
Dec	Group Leaders	Budget Update
6th Dec	Cabinet / EMT / SLT	Budget workshop
Dec	SLT	Update on budget FRM
Dec	WG	Final settlement
Dec	Cabinet	Approve council tax base, update of FRM from final settlement
Dec	Comms	Consultation closure
Dec	Comms	Finalise consultation responses and feedback findings
20th Dec	Cabinet / EMT / SLT	Budget workshop
Dec	Group Leaders	Budget Update

Dec	Audit Committee	Update if needed on agenda
December	Finance	Prepare draft capital & TM strategy inc PIs and MRP
2023		
Jan	Head of Finance	Business rates consultation
Jan	Finance	Community council precepts finalised
Jan	Cabinet/EMT	Finalise draft budget - informal meetings
Jan	Group Leaders	Budget Update
Jan	Council	Budget workshop
Jan	Clerks	Publish cabinet agenda
Jan	Formal Cabinet	Approve draft budget (MTFS & FRM), reserve policy, capital strategy and Fees & Charges Register (income and charging schedule) and recommend to full council for approval
Jan	Finance Panel	Budget scrutiny
Jan	Political Groups	Preparation of Alternative Budget & discussions with HoS re Impact assessments
Jan	Group Leaders	Budget Update
Jan / Feb	Scrutiny's	Scrutiny of draft budget - ensure meeting long enough for robust scrutiny
Feb	Head of Finance	Discussion of alternative Budget with S 151 officer
Feb	Finance / Groups	Last date for submission of alternative budget with Final Impact assessments
Feb	Clerks	Issue Scrutiny Agenda for Alternative Budget (papers to follow)
Feb	Cabinet	Informal Cabinet to consider Scrutiny Comments on Cabinet Budget
Feb	Head of Finance	Last date for Alternative budgets to be approved by s151 officer
Feb	Clerks	Send Alternative Budget papers to Scrutiny if approved by s151 officer
Feb	Group Leaders	Budget Update
feb	Scrutiny	Scrutiny Of Alternative Budgets
Feb	Finance	Prepare Scrutiny Report for alternative budget
Feb	Cabinet	Cabinet consider Alternative Budget
Feb	Clerks	Publish Cabinet and any alternative Budgets
Feb	Council	Approve final budget (MTFS & FRM) and capital strategy, reserve policy and Fees & Charging Register (income & charging schedule).
03-Mar	Council	Council approve council tax
Mid March	Finance	Full budget included in the finance system
Mid March	Finance	Full budget set out in the budget book available on the website