

**CYNGOR SIR POWYS COUNTY COUNCIL
CABINET
20th December 2022**

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REPORT TITLE: Medium Term Financial Strategy

REPORT FOR: Information

1. Purpose

- 1.1 For Cabinet to consider the revised assumptions and approach in compiling the revised Medium Term Financial Strategy and updated financial model.
- 1.2 To provide initial information on the Provisional Settlement for Local Government and the allocation for Powys.

2. Background

- 2.1 The Medium Term Financial Strategy (MTFS), has been developed as part of the overall strategic planning for the Council, and will give regard for the new Corporate Plan which is being finalised over the coming weeks. The strategy captures the financial, regulatory and policy drivers affecting the council and sets the direction and approach through to 2028.
- 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 Cabinet considered a report on the 27th September 2022 which provided an update on the Economic Context and how this is impacting on the development of the Councils Budget and the Medium Term Financial Strategy. The report proposed that it was appropriate for the MTFS to be reviewed and updated to reflect the impact of the economic situation and how that will impact on the Councils financial plans.
- 2.4 The review has been undertaken and the MTFS updated, however, work continues reflecting the volatility that remains. Further changes will be made as information becomes available.
- 2.5 The Provisional settlement was announced on the 14th December 2022 and this report provides an update on the funding allocation received. The impact of this has not yet been fully considered or reflected in the Medium Term Financial Strategy. The strategy will be updated when the implications of the settlement have been fully considered and the final budget proposal prepared. The final document will be agreed as part of the final budget pack to be approved at Cabinet in January, then reviewed by Scrutiny Committees, before final approval at Council in February 2023.

3. Understanding the impact

- 3.1 Increasing costs have been considered in our plans. 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
 - Fuel
 - Food
 - Real Living Wage
 - Contract inflation linked to CPI running at over 10%
 - Capital Scheme costs
 - Cost of Borrowing
 - Inflationary impact on contractual obligations
- 3.2 Employee Costs are set to increase significantly from the assumptions included previously, 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 agreed 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.
- 3.3 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. The increase in the Real Living Wage from £9.90 to £10.90 per hour is reflected in the plan.
- 3.4 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.
- 3.5 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. Gas prices have increased by a further 301% and electricity 173%.
- 3.6 Energy costs were expected to increase by more than £5.9 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.
- 3.7 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

3.8 The table below provides a summary of the changes between the previous MTFS and the updated version now being considered. These specific inflation changes create a significant pressure on next years budget, a circa £15.731 million.

| | Original Assumptions % | Updated Assumptions % | Change % | Increase in Value £'000 |
|------------------|----------------------------------|---------------------------------|--------------------|--|
| Teachers Pay | 2.0 | 3.5 | 1.5 | 1,670 |
| All Other Pay | 2.0 | 4.0 | 2.0 | 2,402 |
| Gas/ Electric | 2.0 | 301/173 | 299/173 | 5,932 |
| Fuel | 2.0 | 32.0 | 30.0 | 434 |
| Transport Pupils | 2.0 | 9.0 | 7.0 | 655 |
| Food | 2.0 | 10.0 | 8.0 | 138 |
| Inflation re CPI | 2.0 | 9 - 11.0 | 7 - 9 | 4,500 |
| | | | Total | 15,731 |

4 **Capital Programme**

- 4.1 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.
- 4.2 Continued increasing inflation is having a significant impact on the cost of schemes due to rising material and construction costs with schemes costing more than in previous years. This additional cost increases the funding requirement leading to additional borrowing.
- 4.3 The Bank of England has increased interest rates to try to stabilise inflation, this increases the cost of borrowing which in turn increases the pressure on the revenue budget.
- 4.4 The Capital Programme is being reviewed and reconsidered to ensure that the revenue implications of capital expenditure is accurately reflected in the Medium Term Financial Strategy and that the capital expenditure plans of the council remain affordable, prudent and sustainable.

5. **Future Funding**

- 5.1 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.
- 5.2 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 |

5.3 Welsh Government had 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 22. 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.

5.4 These figures have now been updated by Welsh Government based on their revised budget plans and the Provisional Settlement has now been published on the 14th December 2022. Section 7 of this report sets out the detail of the settlement but the full implications of this will now need to be factored into the Medium Term Financial Strategy and the budget proposals. The Medium Term Financial Strategy will again be updated in light of this new information before a final version is submitted for approval along with the full suite of budget papers in January 2023.

5.5 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.

5.6 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 in the Council's 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.

5.7 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.

6. Strategy to bridge the gap

6.1 The MTFs sets out the approach and the principles that will be applied as our plans continue to be developed. 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.

6.2 Holding an appropriate level of reserves is fundamental to the Councils financial resilience. A key principle in the Strategy confirms that reserves will not be used to fund recurrent budget pressures or to keep down council tax rises. This is because:

- o It creates a gap in the finances of the following year as reserves are cash sums.
- o Earmarked reserves are set aside for a particular purpose.
- o Reserves are an important part of financial resilience, providing a cash buffer.
- o 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.

6.3 The plans set out by the Chancellor in the Autumn Statement indicated that public sector spending would be leaner in future years. This would almost certainly imply a return to an era of lower funding settlements and spending cuts. In response to this the Executive Management Team are developing work to reassess what the Council of the future could look like. Defining a minimum model of delivery is the focus for this work, creating a base level from which to build provision that can more readily adapt to changes in the level of funding.

7. Provisional Settlement

7.1 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). In 2023-24, local authorities will receive £5.5 billion from the Welsh Government (WG) in RSG and NDR to spend on delivering key services. The indicative Wales-level core revenue funding allocation for 2024-25 is £5.69 billion, equating to an uplift of £169 million (3.1%).

7.2 WG continue with their commitment to local government being at the frontline of delivering a wide range of vital public services. Local authorities have been affected by the soaring cost of energy and inflation across all services, including in two of their biggest service areas: schools and social care. This is alongside overall increases in demand in many service areas.

7.3 Schools in Wales are directly funded by local authorities; funding for schools is provided mainly through the local government settlement. The Welsh Government’s education budget also supports spending in and on schools, teachers and wider education programmes, including free school meals, the rollout of the new curriculum, teacher training and support to help learners recover post pandemic.

7.4 As a result of spending decisions made in relation to education in England, Wales received additional funding in the Autumn Statement. This is being provided in full to

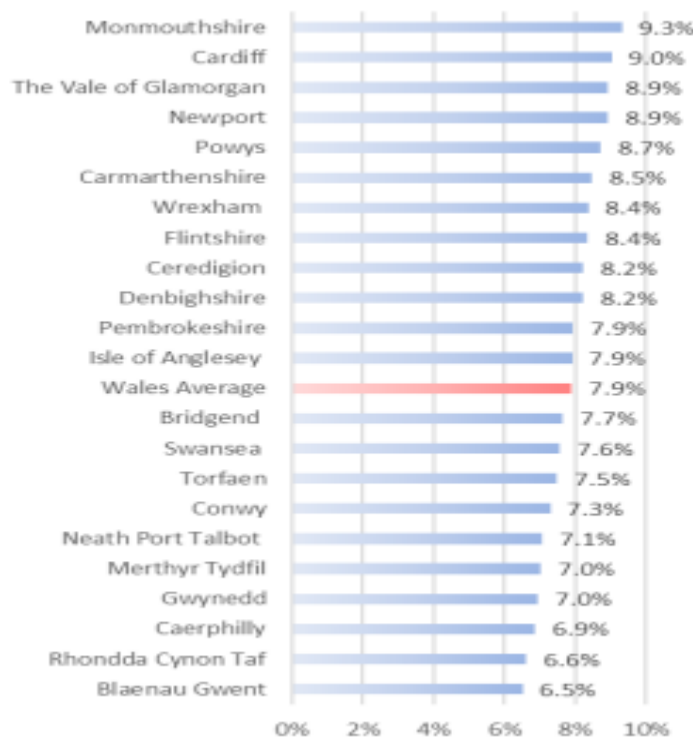
local government through increases to the unhypothecated settlement and through the education budget. The funding provided through this Settlement will therefore cover the costs arising from the 2023/24 pay deal which fall within the 2023-24 Settlement year. WG have again taken the decision to provide all the available funding up front and not hold back funding for in-year recognition of the 2023/24 teachers' pay deal. Authorities' budget planning must therefore accommodate these costs.

- 7.5 Welsh Government recognises that social care plays a vital role in Wales, supporting people to live independent lives in the community while also supporting the wider health service. Without effective social care, the NHS' ability to function effectively will be swiftly diminished. The demand for social care has increased rapidly and the sector is under intense pressure, as it struggles to recruit and retain staff.
- 7.6 In April 2022, Welsh Government provided funding to enable the Council to be able to pay the Real Living Wage for social care workers. To maintain this WG makes a recurrent provision of £70m to meet the Real Living Wage for social care workers, within the allocations to the health and social care budget and the local government settlement.
- 7.7 For Education, in addition to the funding being providing for schools via the local government settlement, WG are allocating an extra £10m for schools via the Education budget in 2023-24. This is made up of an additional £5.5m to support the continuation of the Recruit, Recover and Raise Standards (RRRS) programme in line with the Programme for Government commitment; and a further £4.5m to support implementation of the Additional Learning Needs (Wales) Act as part of the long-term programme of education reform. There will also be an additional £9m to support post-16 provision, including a review of Renew and Reform funding and other distinct pressures for school sixth form and FE sector.
- 7.8 The Welsh Government remains committed to people in Wales having access to a decent place to live. Funding for housing and homelessness continues to be an area of priority investment, which protects the most vulnerable in society. £10m is allocated to the homelessness prevention budget to boost investment in homelessness prevention and relief interventions across Wales providing support for local authorities to continue our 'no-one left out' approach.
- 7.9 Funding for the Council Tax Reduction Scheme (CTRS) for 2023-24 remains the same as the allocation for 2022-23 at £244 million.
- 7.10 Businesses and other ratepayers in Wales are supported with a package of non-domestic rates support worth more than £460m over the next two financial years. The approach taken in previous years is maintained with the freezing of the non-domestic rates multiplier for 2023-24. This ensures there will again be no inflationary increase in the amount of rates businesses and other ratepayers are paying.
- 7.11 WG are also introducing a £113m, fully funded, transitional relief for all ratepayers whose bills increase by more than £300 following the UK-wide revaluation exercise, which takes effect on 1 April 2023.

7.12 Finally, the NDR support package also provides over £140m of non-domestic rates relief for retail, leisure, and hospitality businesses in Wales. Eligible ratepayers will receive 75% non-domestic rates relief for the duration of 2023-24, capped at £110,000 per business across Wales.

7.13 The Graph below shows changes to the AEF across the Local Authorities in Wales between 2022/23 and 23/24. The average increase is 7.9% driven by the funding formula. This is largely a reflection of data movements in pupil numbers and free school meal entitlement derived from the schools' census, as well as the impact of the decennial Census on the population counts/estimates. The lowest increase is Blaenau Gwent with 6.5% and the highest is Monmouthshire with an increase of 9.3%.

Changes to AEF by local authority, 2022-23 to 2023-24



Source: WG Provisional LGF Settlement 2023-2

7.14 The graph confirms that funding in Powys has increased by 8.7% after adjusting for transfers, this equates to an additional £18.298 million for next year.

7.15 Powys' Settlement reflects more favourable financial re-distributional movements in formula indicators such as free school meals and benefits, whilst there are less favourable financial movements in pupil numbers as shown in the tables below.

| Dataset | 2022-23 Final (£000) | 2023-24 Provisional (£000) | Increase (£000) | % Increase | Rank ⁴ (% increase) |
|---|----------------------------|----------------------------------|--------------------|------------|--------------------------------------|
| AEF¹ | | | | | |
| Overall Aggregate External Finance | 210,090 | 228,388 | 18,298 | 8.7% | 5 |
| AEF plus top-up funding per capita (£) ^{2 3} | 1,585 | 1,719 | 134 | 8.4% | 15 |
| AEF adjusted for transfers | 210,090 | 228,388 | 18,298 | 8.7% | 5 |
| Capital Settlement | | | | | |
| General Capital Grant | 3,167 | 4,711 | 1,544 | 48.8% | |
| Unhypothecated Capital Support | 4,595 | 4,587 | -8 | -0.2% | |
| Total General Capital Funding | 7,762 | 9,298 | 1,536 | 19.8% | |

Notes:

1. Aggregate External Finance = Revenue Support Grant + National Non-Domestic Rates.
2. The per capita calculation for 2022-23 is based on the 2018-based local authority projections for 2022.
3. The per capita calculation for 2023-24 is based on an average of the 2018-based local authority projections for 2023 and the 2021 census data.
4. The rank is based on the percentage difference for each authority.

Change in Key Datasets

| Dataset ¹ | 2022-23 Final | 2023-24 Provisional | % Difference | Rank | % share 2022-23 | % share 2023-24 | Change in % share | Rank |
|---|------------------|------------------------|-----------------|------|--------------------|--------------------|----------------------|------|
| Total Population ² | 132,538 | 132,885 | 0.3% | 2 | 4.18% | 4.23% | 0.05% | 2 |
| Pupil Numbers - Nursery and Primary | 9,589 | 9,572 | -0.2% | 3 | 3.68% | 3.72% | 0.04% | 4 |
| Pupil Numbers - Secondary in year groups 7-11 | 6,452 | 6,393 | -0.9% | 22 | 3.83% | 3.75% | -0.08% | 22 |
| Free School Meals - Primary | 1,147 | 1,304 | 13.7% | 1 | 2.37% | 2.54% | 0.17% | 2 |
| Free School Meals - Secondary | 719 | 827 | 15.0% | 4 | 2.50% | 2.65% | 0.14% | 4 |
| IS/ JSA/ PC/UC (not in employment) claimants - 18 to 64 | 3,139 | 4,281 | 36.4% | 2 | 2.38% | 2.60% | 0.22% | 1 |
| IS/ JSA/ PC claimants - 65+ | 3,827 | 3,626 | -5.3% | 11 | 4.03% | 4.03% | 0.00% | 11 |
| IS/ JSA/ PC/UC (not in employment) claimants - all ages | 7,027 | 8,017 | 14.1% | 5 | 3.07% | 3.11% | 0.04% | 4 |
| SDA/DLA/PIP claimants - 18 to 64 | 4,570 | 4,735 | 3.6% | 13 | 3.11% | 3.10% | -0.01% | 12 |

Notes:

1. For definitions of the indicators refer to the Local Government Settlement 2023-24 - Local Government Finance (Councils) Report.
2. Population data set used for the 2022-23 final settlement is based on the 2018-based local authority projections for 2022 and for the 2023-24 provisional settlement an average of the 2018-based local authority projections for 2023 and the 2021 census data.

7.16 For Powys the capital budget is made up of two elements; the un-hypothecated (supported) borrowing element which decreases by £8,000, however the General Capital Grant allocation has increased by £113k.

7.17 The publication of the Settlement in mid-December has enabled WG to draw on the latest tax-base figures for 2023-24, meaning that there should be no change between provisional and final settlements as a result of updates to the tax base. There is no guarantee that there will be no other changes between the provisional and final settlements, but WG do not intend making any significant changes to the methodology or the data underpinning the distribution of the Settlement. There is one change planned for final budget and that is the intention to transfer funding for the increased employer costs related to Fire and Rescue Authority (FRA) pensions from a grant to the FRAs into the final local government settlement. This will need to be considered further and discussed with the Mid and West Wales Fire Authority.

8. Resource Implications

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

- 8.1 The updated MTFFS ensures that Council understands the impact of the economic climate and considers the financial pressures this brings to our financial planning. Updating the assumptions in response to the changing environment and modelling different funding scenarios helps us plan in a more resilient way.
- 8.2 The challenge imposed and the speed in which it has taken affect has yet again seen the Council focus on the short term. If the next UK government sticks to the lean spending plans pencilled in by the current government future funding settlements are projected to decline and analysts are reporting that this would almost certainly imply a return to an era of spending cuts and above-inflation council tax increases. Developing plans early to respond to this is essential to ensure that the Council remains financial stable.
- 8.3 The Provisional Settlement provides the Council with an additional £18.298 million of funding for 2023-24. This is welcomed and will go some way to help fund the significant pressures we face. The full impact of the settlement will now be assessed and reflected in our financial plans for further consideration as the final budget proposal is developed.

9. Legal implications

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

10. Data Protection

There are no data protection issues within this report.

11. Comment from local member(s)

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

12. Impact Assessment

No impact assessment required. Impact Assessments will be provided to accompany the budget proposal in the new year.

13. Recommendations

- 13.1 That Cabinet consider and approve the revised assumptions and the approach outlined in compiling the revised Medium Term Financial Strategy and updated financial model.
- 13.2 That Cabinet note the initial information on the Provisional Settlement for Local Government and the allocation for Powys.
- 13.3 That Officers update The MTFFS and budget plan in light of the provisional settlement for further consideration by Cabinet over the coming weeks before finalising the budget proposal in January 2023.