Powys County Council's
Medium Term Financial Strategy

2023 to 2028

Contents

Revised December 2022

1. Introduction

1.1 Purpose

The Medium-Term Financial Strategy (MTFS) sets out the financial strategy for Powys County Council for the period 2023 to 2028. It has been developed as part of the overall strategic planning process and aligned with the Council's Corporate Plan. It 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 2023/24, and indicative budgets for the following 4 years to March 2028. This means the Council has an ongoing financial plan to:

- Enable service transformation within the funding levels available.
- Prepare for the challenges in setting a balanced budget in future years.
- Allows decision makers to consider the allocation of resources, helping to ensure they are directed towards delivering core responsibilities alongside corporate priorities.
- Understand the Council's financial resilience, helping to protect the Council's long term financial health and viability.
- Considers affordability in decision making. It is a live document so will change as estimates and assumptions are confirmed.
- Align revenue and capital to ensure that our limited resources are prioritised to achieve maximum effectiveness and based on securing outcomes that matter to our residents.

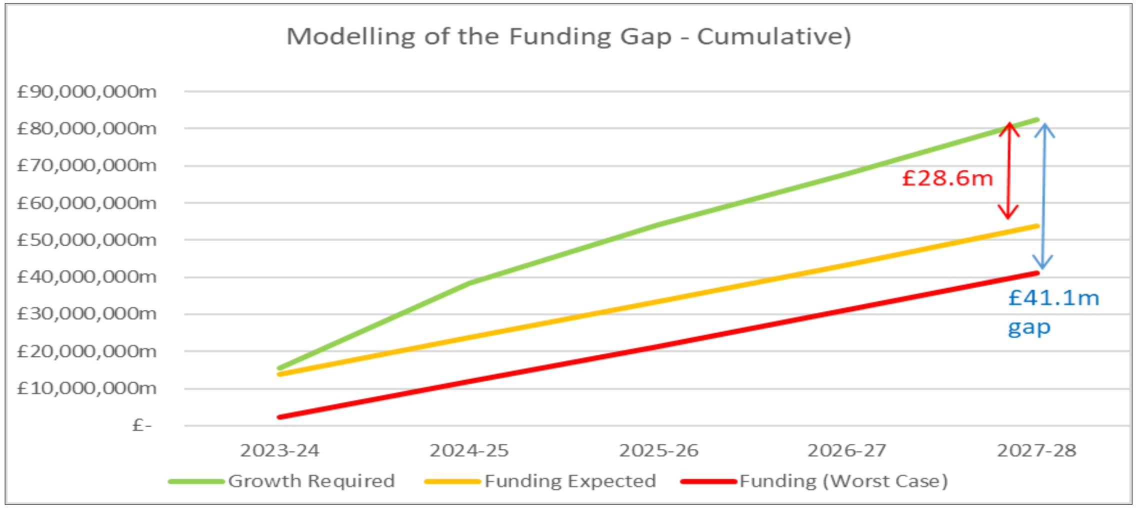
The MTFS includes all Council services activity funded by the revenue budget, the Housing Revenue Account and the Capital programme. This information is presented in a 5-year budget model and a 5-year Capital Programme.

1.2 Overview

Over the last two years the Council has faced an unprecedented challenge supporting the demands of the Covid 19 pandemic, addressing the implications post Brexit and more recently the implications of the events in Ukraine and the national economic situation. These challenges have created significant financial pressures, albeit partially supported by positive Welsh Government (WG) grants and settlements. For 2022-23 a 9.5% increase was given to Powys covering the cost of some pressures, the real living wage implementation and pay inflation. But the ever-increasing costs and continued rising inflation means this increase is not sufficient to fund the demands as we move into 2023.

The estimated funding gap to 2028 is £28.6 million based on the expected settlement from WG, this rises to £41.1 million for the worst-case scenario based on reductions to the WG settlement. Figure 1 below provides the overall gap between the estimated cost of service delivery taking into account a level of inflation, demand and pressures against the funding we are likely to receive.

Figure 1



1.3 Approach

The MTFS is based on an approach which brings together all elements of the Council activity to deliver the Corporate Plan, a programme of transformation, and delivers appropriate levels of statutory service. The process of modelling future budget assumptions uses pay and price pressures and changes in service demand, alongside expected funding, from which the budget gap is identified for each year of the plan.

To bring together Service Plans and the resourcing demands, the use of Integrated Business Planning (IBP) process has been implemented and highlights service objectives that support the Corporate Plan and transformation underpinned by the financial plans to deliver and benefit from the objectives.

The IBP incorporates a level of service evaluation on performance, cost analysis, benchmarking, regulatory recommendations, proposals for improvement and Service User / Resident Feedback.

1.4 Principles

As well as consideration of future income and expenditure scenarios, the MTFS provides a set of clear principles which will drive the Council's budget and spending decisions 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 Corporate Plan.

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.

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.

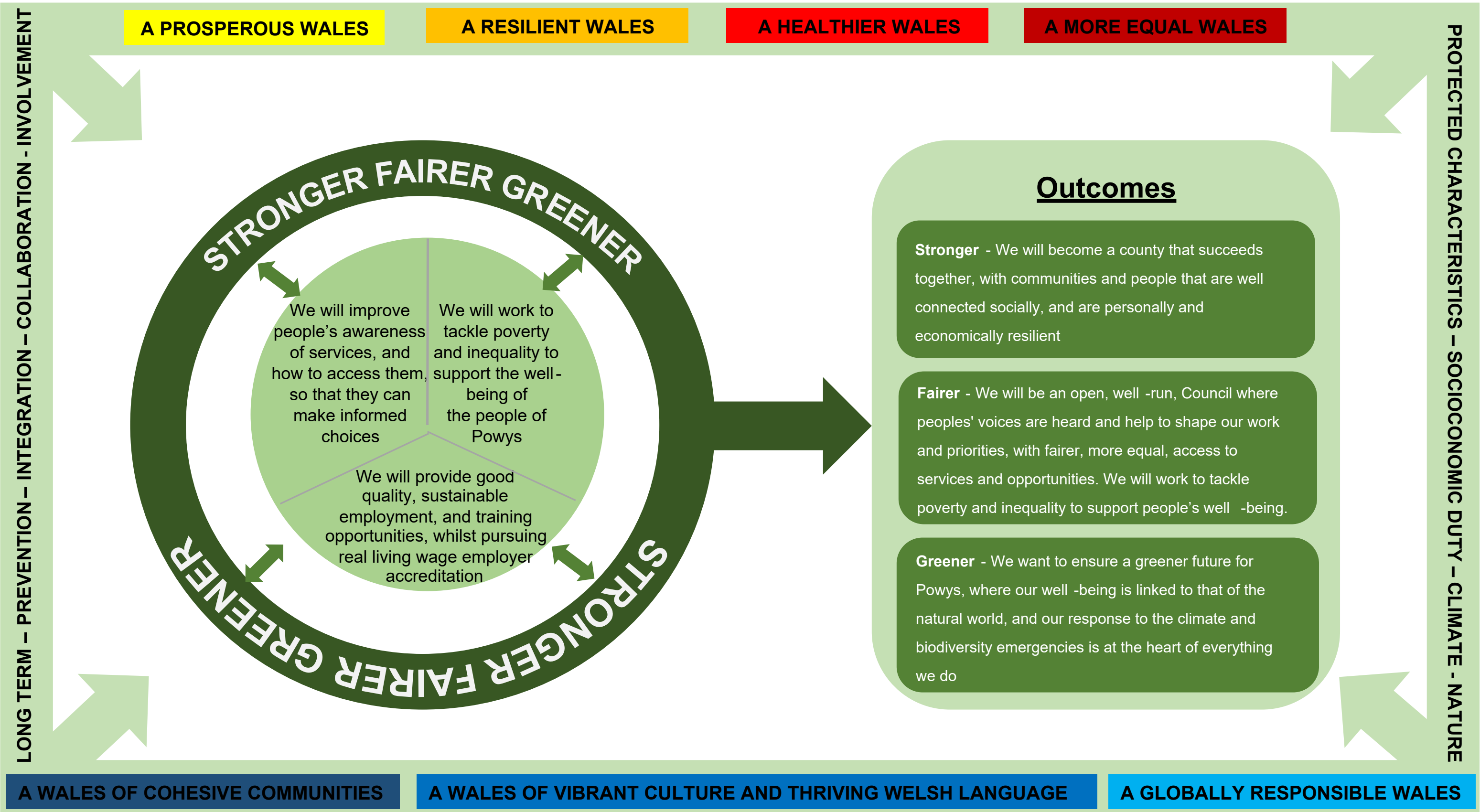
10. Budgets will be managed by members of SLT in accordance with the Council's Financial Procedure Rules.

2. Key Drivers

2.1 Council Priorities

The Councils' new administration is in the process of finalising its ambitious five-year plan and their priorities are set out in Figure 2:

Figure 2



The priorities align to the 5 ways of working and the 7 Well-being goals of The Well-being of Future Generations (Wales) Act 2015) and meet statutory requirements and legislative changes are defined. In finding sustainable solutions for service delivery objectives broadly align to any 1 of the following requirements:

- Objectives to redesign services to deliver them more efficiently, effectively or in an alternative manner.
- Objectives that identify key delivery partnerships or outsourcing opportunities
- Objectives that contribute positively to support Climate Change
- Objectives that realise opportunities to stop delivering services because requirements or priorities have changed, allowing the planned release of resources.
- Objectives that realise opportunities to generate additional income.

It is essential that the Council priorities are funded through either revenue or capital to ensure that they can be delivered over the short to medium term.

2.2 Key Demands

Education – investment in schools transformation programme as part of the WG 21st century schools band B programme, a cycle of building and modernising the estate with the reduction in the asset base to deliver affordable, energy efficient buildings that improve learner entitlement.

Social Care - The priority in social services is to increase early help in order to enable and support as many children and adults who need help as possible to live in and engage with their own communities. This requires increased investment into universal services and early help and/or edge of care services, along with increased investment in in-house and commissioned not-for-profit services, while reducing investment in out of county and for-profit service provision.

Housing – The Council has in place a strategy to build 250 social housing properties by 2025 and to prioritise improving the energy efficiency of its least efficient homes. These investments are funded through the ring-fenced Housing Revenue Account (HRA), funded primarily by rental income received from tenants, with government support limited to new development and maintaining the Welsh Housing Quality Standard. The Council has more than 4,700 households registered with *Homes in Powys* for secure, affordable homes.

Homelessness – There has been an increase in households presenting as homeless. Homelessness service demand has increased from 383 households in 2016-2017, to 833 households in 2021-2022.The Welsh Government implemented the ‘Everyone In’ policy during Covid-19, which is now remaining as a permanent feature of homelessness policy and practice in Wales. There has been a substantial increase in the number of homeless single person households, whose housing options are limited by the lack of smaller sized accommodation regardless of tenure in Powys. Homelessness is a statutory service funded through the general fund.

Demography The total number of people living in Powys has remained static over recent years with a slight increase projected over the next few decades. There is a challenge of a decreasing working age population combined with a rapidly increasing older people population. This is leading to issues regarding recruitment and retention of workforce. The population across Wales has increased and the change across other authorities has an impact on Powys and the distribution in funding.

Deprivation - The coronavirus pandemic has increased existing health inequalities. Deprived groups have been more vulnerable during lockdowns and due to declining income. 4,088 families live in absolute poverty in Powys, 31% (1,248) of these were lone parent households (Department for Work and Pension, 2019-20). The average household income in Powys is **£33,458** (Wales: £34,700, UK: £40,257).

- 55% (33,149) of households earn below the Wales average household income of £34,700 (37% earn above), and
- 70% (42,107) of households earn below the UK average household income of £40,257 (24% earn above) (CACI, 2021).

Employment – Powys has a low unemployment rate, but also is a low waged economy. With the current inflation levels set to rise it is likely there will be more unemployment and demands for access to CTRS, benefits advice and levels of arrears in council tax, housing etc increase

Real Living Wage (RLW) –. The Council is a Real Living Wage 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.

Climate Change – The pledge to address the Climate Change emergency and reduce carbon emissions to zero by 2030. This will require significant capital investment, alongside a change in key polices and procurement. Activities include building sustainable homes, greater active travel, Electric Vehicle replacement, green energy such as solar, sustainable procurement, energy efficiency works and carbon offsetting.

2.3 Economic and Fiscal Outlook

The current economic context is challenging. On 17th November 2022 the Office for Budget Responsibility (OBR) published its report "Economic and fiscal outlook". The report provided an analysis and forecast of the UK's public finances based on the budget statement released by the Chancellor of the Exchequer on the same day.

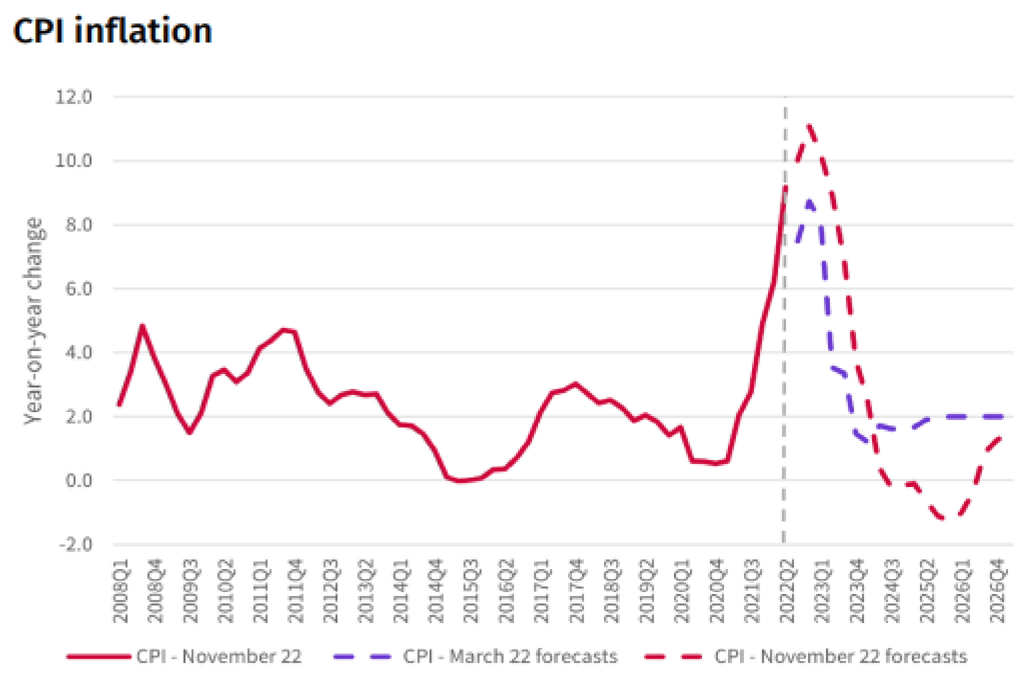
Over the past six months, the global energy and food supply shocks emanating from Russia's invasion of Ukraine have intensified. The further curtailment of Russian imports saw European wholesale gas prices rise ten-fold from pre-pandemic levels, and markets now expect prices to remain four times higher in the medium term. Rising energy, food, and other goods prices have pushed up the interest rates set by inflation-targeting central banks to levels not seen since the 2008 financial crisis. This has taken much of the wind out of the global economic recovery from the pandemic and ratcheted up the financial pressure on governments that emerged from it with higher debt and are again being called upon to help households and businesses through this latest crisis.

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.

CPI inflation is set to peak at a 40-year high of 11 per cent in the current quarter, and the peak would have been a further 2½ percentage points higher without the energy price guarantee (EPG) limiting a typical household's annualised energy bill to £2,500 this winter and £3,000 next winter. Rising prices erode real wages and reduce living standards by 7 per cent in total over the two financial years to 2023-24 (wiping out the previous eight years' growth), despite over £100 billion of additional government support. The squeeze on real incomes, rise in interest rates, and fall in house prices all weigh on consumption and investment, tipping the economy into a recession lasting just over a year from the third quarter of 2022, with a peak-to-trough fall in GDP of 2 per cent. Unemployment rises by 505,000 from 3.5 per cent to peak at 4.9 per cent in the third quarter of 2024.

Inflation is expected to drop sharply over the course of next year and is dragged below zero in the middle of the decade by falling energy and food prices before returning to its 2 per cent target in 2027, as is projected in Figure 3 below. The resulting recovery in real incomes, consumption, and investment sees GDP return to growth in 2024 and output recover its pre-pandemic level in the fourth quarter of that year.

Figure 3



Source: OBR (2022) Economic and Fiscal Outlook November 2022

CPI rates are elevated almost everywhere, underlining the key role of global factors. Of the 38 countries in the OECD, all but 5 currently have inflation rates above 6%, and over half above 8%. Some countries in Northern Europe have inflation rates as high as 20%.

Higher borrowing pushes underlying debt (excluding the Bank of England) up sharply, from 84.3 per cent of GDP last year to a 63-year high of 97.6 per cent in 2025-26. Tax rises, spending cuts and a pick-up in GDP growth are then sufficient for it to fall modestly in 2026-27 and 2027-28. The Government's two legislated fiscal targets to balance the current budget and get underlying debt falling in 2025-26 are on course to be missed by £8.7 billion and £11.4 billion respectively.

Given the scale of the energy shock and the recession it has induced, the Government has announced new targets: to get borrowing below 3 per cent of GDP and underlying debt falling in five years' time, which it achieves, respectively, with £18.6 billion and £9.2 billion to spare.

But the near tripling of interest rates since March means the share of revenues consumed by servicing that debt rises from under 5 per cent in 2019-20 to 8½ per cent in 2027-28, leaving the public finances more vulnerable to future shocks or swings in market sentiment.

UK Government's Spending Round: Implications for Wales

The UK Government provided the Welsh Government with an additional £2.5 billion per year on average through the Barnett formula over the Spending Review period. This is on top of its annual baseline funding of £15.9 billion.

The Welsh Government is also receiving an additional £425 million this year. In addition, funding is provided for a number of specific initiatives including the Levelling Up fund, City and Growth deals, Global Centre of Rail Excellence, the Net Zero Strategy, and the Shared Rural network (to deliver high-quality 4G mobile coverage to 95% of the UK).

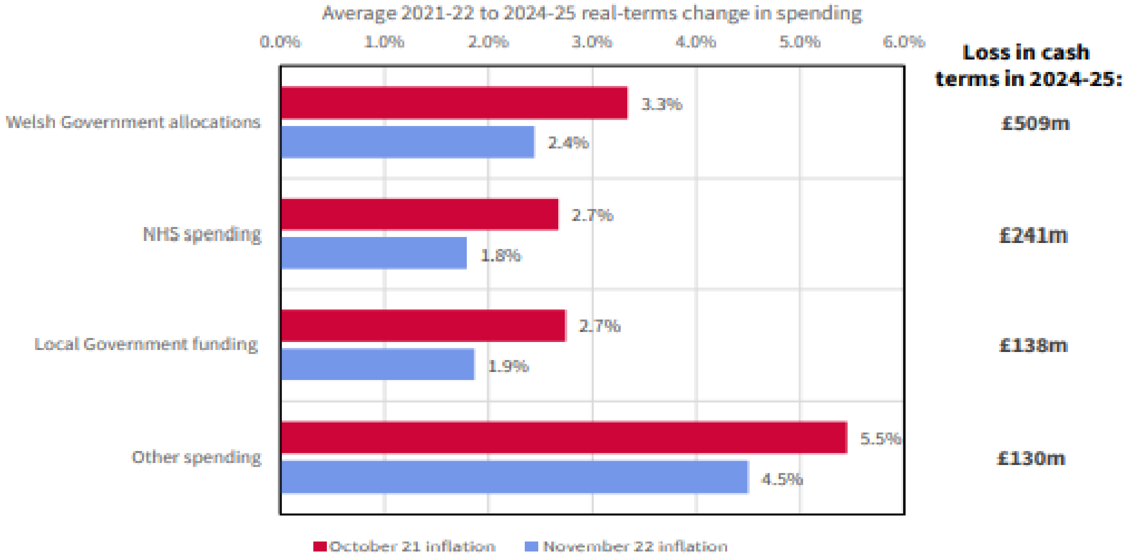
The recent budget statement will provide some clarity of the level of funding that will be distributed to Wales, we await confirmation from WG about the level that will filter through to local authorities, and more specifically Powys. In England there is additional funding for the NHS, social care and schools in England over the next two years, largely funded by recycling £5 billion earmarked for overseas aid spending, there may be a proportional amount for devolved countries.

Beyond the end of the spending review period, public service spending is growing less quickly than previously planned (about £21.5 billion of fiscal tightening), also capital spending is cut in real terms after 2025 (£14.8 billion of tightening).

Using October 2021 inflation forecasts, the implied average real-terms growth over three years is 3.3% for WG, and for local authorities 2.7%, Higher inflation (as measured by the GDP deflator) suggests that falls to 2.4% in real terms, as set out in Figure 4 below.

Figure 4

Welsh Government Final Budget plans – average annual real terms change in day-to-day spending from 2021-22 to 2024-25



Source: OBR (2022) Economic and Fiscal Outlook March 2022; Welsh Government (2022) Final Budget 2022-23; and authors' calculations. • Notes: Total day-to-day spending allocations refers to fiscal resource allocations and redistributed non-domestic rate revenues

Welsh Government's Budget and Outlook

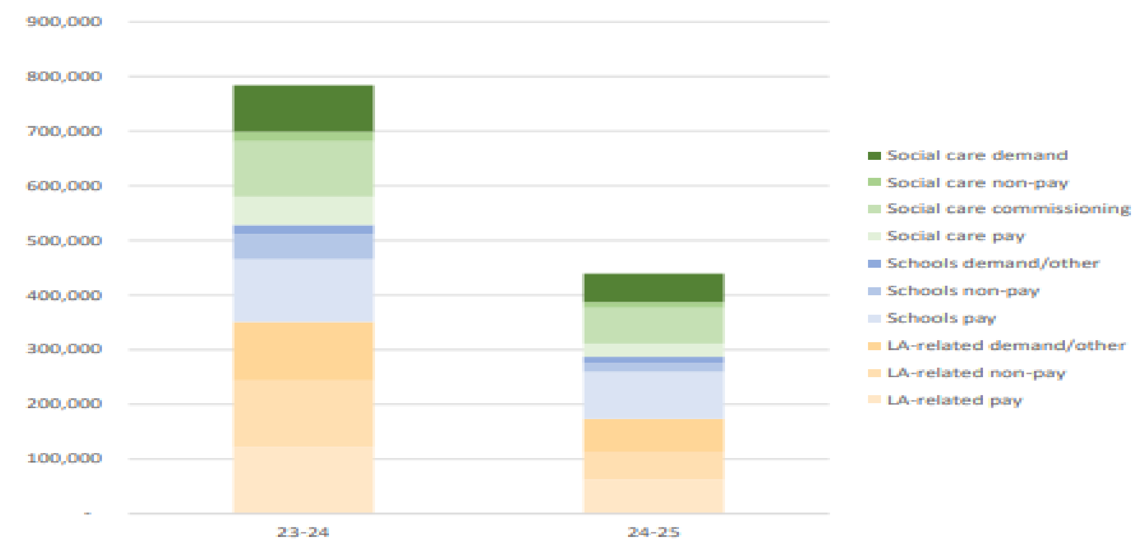
Overall, the Welsh Government's Total Managed Expenditure is just over £23.7bn in 2022/23. Indicative allocations show this rising to £24.7bn in 2023/24 and £25.1bn in 2024-25. Within that definition is the Departmental Expenditure Limit (DEL) which is the element of the budget under direct Ministerial control.

Welsh Government's set out their priorities which continue to be health and local government services. They suggest that the increased Settlement in 2022-23 will enable local authorities to continue to deliver the services their communities want and need as well as supporting national and local ambitions for the future, including responding to the climate and nature emergency and contributing to our Net Zero

Wales plan. The announcement of the 2022/23 settlement included indicative figures up to 2024/25. Following an increase of 9.4% announced as part of the 2022/23 settlement, Aggregate External Finance will grow by 3.5% in 2023/24, and 2.4% in 2024/25.

A recent all Wales survey by the WLGA suggest that for Local Authorities, the pressures building up in the system are starting to look potentially catastrophic. Recent experience tells us that pressures in local government budgets vary from anything between £250 million to £300 million in any one financial year. Even though pressures in the current financial year were offset by a generous settlement, it is becoming clear that there are additional in-year pressures amounting to £257 million. This becomes a cumulative pressure £784 million by the end of 2023-24. Surging inflation continues to drive the cost base up by £439 million in the subsequent year, which gives a cumulative pressure of £1.23bn by the end of 2024-25. On the funding side, planned increases in Aggregate External Finance (AEF) of 3.5% and 2.4% in 23-24 and 24-25 respectively, will yield an additional £293 million in additional grant. Councils are planning for £121 million worth of council tax increases over the same period. Taking these and other funding streams together means that there is £421million of additional income available leaving a cumulative shortfall of £802 million by the end of 2024-25. Figure 5 shows how the pressure in both financial years breaks down by service and theme.

Figure 5



Source: SWT Survey 2022

In August the Institute of Fiscal Studies (IFS) described the UK economy as ‘under the cosh’. Referring to the Bank of England’s latest economic forecasts the IFS describes the UK set to face both a recession and an extended period of high inflation and this presents a serious challenge to households, businesses and public services. For local public services, cash-based budgets do not automatically increase for unexpected inflation and councils purchase fewer goods and services, and budgets shrink in real terms. Inflationary pressures in council budgets arise from four main sources: pay, energy, transport, and food. Additional inflationary pressures that were initially flagged up at the end of the last financial year are starting to feed into this year’s spending commitments and affect future financial plans in a significant way. This will impact on budgets both in the current financial year, and in 2023-24 and 2024-25.

Indicative funding allocation for the following two years post 2022/23 does assist the Councils financial planning, but the funding will be significantly less than is needed to fund the inflationary demands with the Teachers pay award estimated at 5% and NJC at over 7%, in addition non pay inflation in many areas is significantly higher than expected.

The Welsh Government and Plaid Cymru December 2021 Co-operation agreement pledges to review Council Tax reform in Wales during the next three years. Clearly, from a financial planning perspective, this is an area that will be kept under close review.

2.4 Local Context

Since 2012, £109 million has been achieved through reduced spending (see figure 6) as a response to cuts in government funding and the need to meet inescapable additional costs. There has been a reduction in staffing of 11% and there are 557 less FTE’s. This coincided with a period of challenging financial settlements, including negative (i.e., cash reduction) settlements which has had a lasting impact.

Figure 6

Financial Year	Target (£m)	Delivered (£m)	Delivered %
2012/13	6.0	5.7	0.96
2013/14	17.1	14.4	0.84
2014/15	17.6	14.0	0.80
2015/16	12.8	9.7	0.76
2016/17	12.1	9.6	0.79
2017/18	11.8	8.3	0.71
2018/19	12.3	6.5	0.53
2019/20	21.7	15.8	0.73
2020/21	10.8	8.6	0.80
2021/22	11.8	9.1	0.77
2022/23	8.1	6.9	0.85
2023/24	TBC	TBC	
Total	**142.1**	**108.8**	**77%**

It is more challenging to continue to deliver savings over the medium term, even though savings requirements are still required to support the demand and price pressures. In the last five years alone, the largest budgets in the Council increased by £22.4 million as seen at Figure 7.

Figure 7: Budget Changes

	Net Budget - £			
	2018/19	**2022/23**	**Change**	**%**
Childrens	18,842,414	27,899,704	9,057,290	48.07%
Adults	64,038,521	73,864,171	9,825,650	15.34%
Education	93,356,950	96,830,257	3,473,307	3.72%
	176,237,885	198,594,132	22,356,247	12.69%

The local context affecting our funding and demand for services is well recognised and heavily influenced by Powys being sparsely populated with a wide geographic area requiring services. Powys has a higher-than-average older population that is predicted to increase at a faster rate than the national average. This statistic can largely be attributed to people living longer because of better healthcare and improved lifestyles together with an inward migration of people above retirement age to the County. Conversely, the county's younger population is declining with a reducing birth rate and a sizeable outward migration of young people. Further and higher education and career opportunities are the main contributors to this trend.

These factors in combination present significant challenges to the Council. As evidenced in the updated Rural Cost Analysis (link to follow) the provision of services to a dispersed and relatively small population is expensive as a result of greater transport costs and the demand for facilities to be delivered locally or within a commutable distance.

This Council understands its legal obligation to set and deliver a balanced budget each year and has a significant transformation programme underway to improve the quality of key services such as education, social care, highways, transport and recycling while also reducing our operating costs over the medium term.

On the current modelling, to deliver a balanced annual budget between April 2023 and 2028 the Council will need to reduce its spending by more than £28 million which includes the assumption to increase council tax by 5% each year. This will be achieved through transformational change and cost efficiencies but reductions in some services offered will also be inevitable.

Uncertainty around funding continues and in order to manage this uncertainty revised modelling continues to be based on a number of scenarios with a 2%, 0% and -2% uplift as well as the 3.5% that was originally provided as indicative funding for 2023/24.

3. Medium Term Financial Plan

3.1 Five Year Projections

Based on the modelling assumptions (settlement 3.5% reducing to -2%), the five-year financial projection is summarised at Figure 8, with the detailed Financial Resource Model (FRM) shown at Appendix A.

Figure 8: Five Year Summary

	2023/24	2024/25	2025/26	2026/27	2027/28	Cumulative
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
FRM Net Exp	317,267	340,251	355,937	369,632	384,200	
Current Year Budget	301,872	317,267	340,251	355,937	369,632	
GAP - each year	**15,395**	**22,985**	**15,685**	**13,695**	**14,568**	
Additional Funding						
Council Tax increase - 5% and tax base increase	-6,384	-4,898	-5,143	-5,400	-5,670	
Settlement (3.5%, 2.4%, 2% then on)	-7,359	-5,223	-4,457	-4,546	-4,637	
Net Gap - Each Year	**1,652**	**12,864**	**6,086**	**3,750**	**4,262**	**28,612**

3.2 The FRM and Cost Assumptions

Figure 9 provides the summary position by service for 2023-24.

Figure 9

Service 2023/24 £'000	Base Budget	Pay Award 2022/23	Pay Award 2023-24	Non Pay 2023-24	Demography	Pressures	Covid Pressures	Savings	2022/23 Undelivered Savings	Request 2023/24
		PRESSURES							PRESSURES	
Delegated	79,491	1,018	2,723	3,858	-185	926		-2,689	0	85,142
Education	17,329	274	451	88		1,139		(1,394)	0	17,887
HTR	29,669	829	701	2,050		2,403		(5,187)	0	30,465
H&CD	5,417	304	255	481	0	1,658		(1,061)	0	7,055
PPPP	5,913	242	199	1,024		1,101		(2,431)	75	6,122
ASC Commission	3,647	139	97	20		0		(97)	0	3,807
ASC	73,938	652	596	169	491	8,544	980	(9,340)	0	76,030
Children	27,897	504	466	81	0	2,201	0	(3,731)	1,278	28,695
Finance	6,258	190	167	68		89		(73)	0	6,699
Transf/Comm	1,461	67	53	2		0		(8)	0	1,576
WOD	2,399	95	89	9		154		(12)	0	2,735
Digital	6,312	184	146	69		368		(168)	201	7,112
Legal	3,561	124	110	7		45		(2)	32	3,877
Corp	38,580	32	80	13		1,366		(4)	0	40,067
Total	**301,872**	**4,655**	**6,133**	**7,939**	**306**	**19,993**	**980**	**(26,196)**	**1,585**	**317,267**

Employee Costs – At this time pay awards for 2022/23 have now been agreed, with NJC employees all received £1,925 regardless of grade. Teachers have been awarded 5% with increases to TLR for those part time staff. These assumptions will require an additional £4.7 million to fund the base budget gap. The FRM in 2023/24 pay will increase by 4%, then 2% then on. The cost in 2023/24 is £6.1 million.

Pension Costs – Powys Pension Fund's actuarial review will be finalised in the autumn, at that stage there may be some changes to the current contribution rates, which at this time have not been changed. There are no expected changes to the Teacher Pension Scheme.

Redundancy Costs – The Council has an annual base budget set aside to meet the costs of any transformation redundancies. Services must manage other redundancies within base budget.

Price Inflation – 2% inflation has been factored in across all services for each year, with exceptional increases in:

- Utilities - Electricity by 250% and Gas by 275%, an estimated increase of £5.9 million (including schools)
- Fuel – this has increased by 32% which amounts to an additional cost of £321k
- Food – overall average food costs have gone up by 16% amounting to £289k

Utility prices are being kept under review for this and the next two years. Currently the gas wholesale commodity market is experiencing unprecedented increase in prices due to shifts in global demand, uncertainty surrounding future supply to Europe (partly due to the war in Ukraine), and poor electricity production from renewables.

CPI Inflation currently stands at 11.1% and is expected to rise further before reducing gradually over the next two years, this will impact on many supplier contracts that are linked to CPI / RPI. Where known, these increases are being added as pressures into the FRM.

Capital Financing Costs – Required to achieve the Capital and Treasury Management Strategy, reflects the five-year capital programme and the cost of commitments made in previous years. The capital programme assumptions are:

- Supports Schools Transformation as part of 21st Century schools and building social housing
- Ongoing support to highways improvements
- Delivering the asset management plan to secure capital receipts for future investment
- Borrowing is assumed at 3.5%, although this may need to be raised depending on future bank rates
- One pool of debt for both the General Fund and HRA
- Continue to remain under borrowed and utilise cashflow before committing to long term borrowing
- Borrowing to cover the future capital programme costs will be considered against the cost of carry.
- that the capital expenditure plans of the council remain affordable, prudent and sustainable.

Levies – The budget is £8.4 million with the largest payment to the Mid and West Wales Fire, £7.8 million per annum and likely to require above inflation uplift next year of at least 10%.

Apprenticeship Levy - The Apprenticeship Levy is a government levy payable by larger employers at 0.5% of annual pay bill. As our pay bill is set to increase, we will have to make a greater contribution into the levy next year.

Demographic Pressures – these have been estimated over the next five years

- Adults – numbers are based on those learning disability clients already in the system, mainly from transitioning from children to adult services, a net increase of £0.5 million assumes increased cost of activity.
- Childrens – next year the service proposes to manage demography through the risk budget
- Schools – Pupil number projections show a small decrease in primary and increase in secondary pupils, with a reduction of £185k factored in next year.

Council Tax Reduction Scheme - This budget reflects the payment of Council Tax Support to eligible recipients. At over £11.5 million, future demand on this budget is a key consideration in medium term planning. The impact of the pandemic, rising inflation and an economic recession now being projected will all impact on the number of eligible claimants. Any changes to Council Tax levels also impact on this budget. In recognition of this, within the MTFP, modelled council tax increases are shown net of their impact on CTRS.

COVID - 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.

3.3 Funding and other Support

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

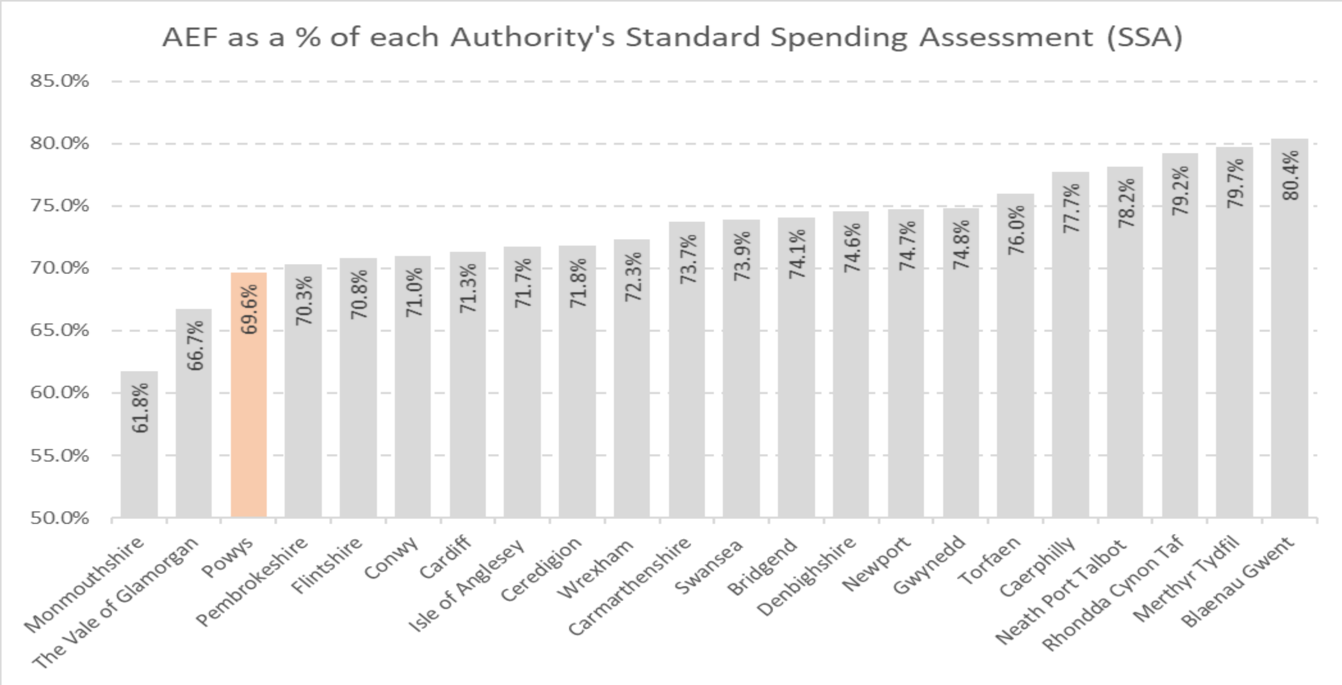
The financing of the net budget comes from the Welsh Government settlement and gross Council Tax income. Figure 10 below summarises the 2023/24 current assumptions.

Figure 10

Additional Funding	2023/24	2024/25	2025/26	2026/27	2027/28
Council Tax increase - 5% and tax base increase	- 6,384,046	- 4,897,801	- 5,142,692	- 5,399,826	- 5,669,817
Settlement (3.5%, 2.4%, 2% then on)	- 7,359,134	- 5,222,882	- 4,456,860	- 4,545,997	- 4,636,917
Funding	**- 13,743,180**	**- 10,120,684**	**- 9,599,551**	**- 9,945,823**	**- 10,306,734**

Council Tax - Council Tax represents around 30.4% of the Council's Net Revenue Budget. Powys' Council Tax contribution is proportionally greater than other Authorities, an authorities' ability to raise Council Tax is calculated on the Council Tax base and Powys has a higher Council Tax base than most of the other authorities. The below graph shows the percentage of each Local Authority's Standard Spending Assessment covered by central funding (AEF).

Figure 12: AEF as a percentage of SSA



The 'gearing effect' for example to raise overall income by 1%, council tax would have to increase by over 3% as it is 1/3rd of total income. If we wanted to increase net budget by 1%, £3 million, this would mean an increase of just over 3%. In our FRM, we are modelling an increase in Council Tax each year of 5% for future years.

The total Council Tax households will have to pay will be affected by decisions from public bodies, including Community Councils and the Police Authority. Figure 13 indicates the additional permanent funding from Council Tax increases ranging from 1% to 10%.

Figure 13: Council Tax Funding

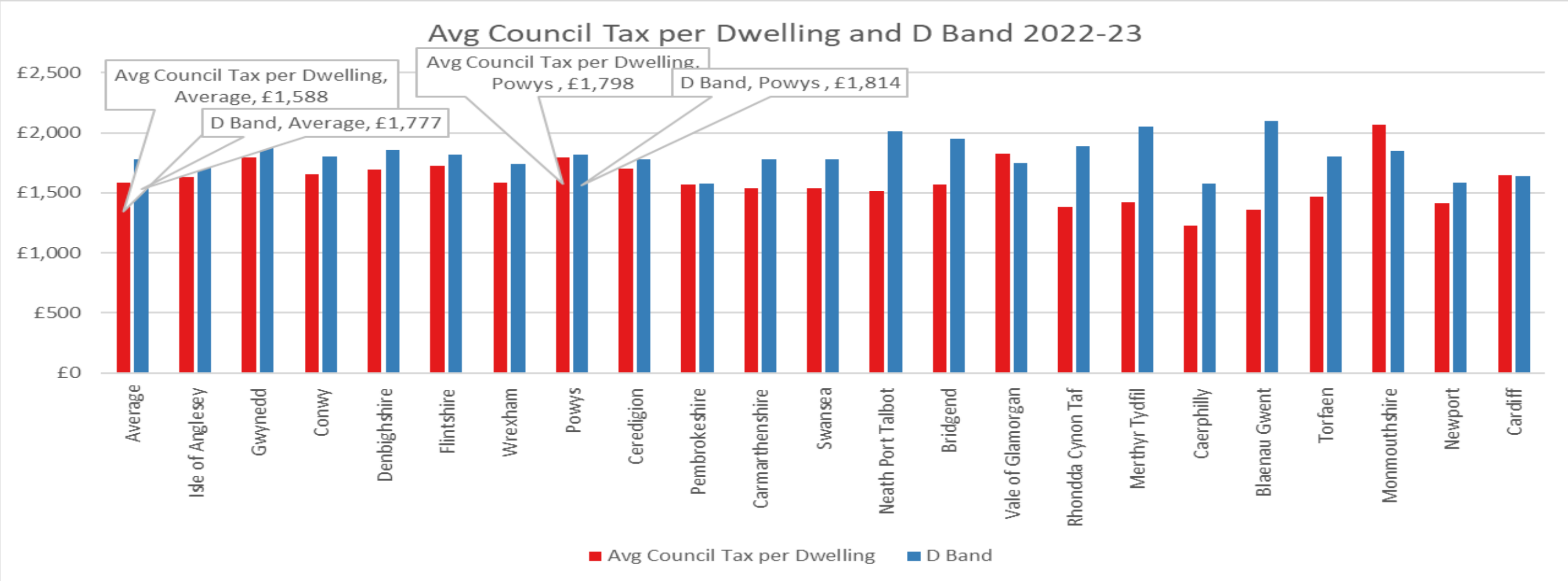
2023/24							
% Change Council Tax	1.00%	2.00%	3.00%	4.00%	5.00%	7.00%	10.00%
£'000	£916	£1,832	£2,748	£3,664	£4,580	£6,412	£9,160
Council Tax Less CTRS	£815	£1,631	£2,446	£3,261	£4,076	£5,707	£8,153

Council Tax income comes from residents but not all residents pay full Council Tax. Around 48% of Powys' 65,000 households pay the full amount, while just over 52% would receive partial or total exemption from payment.

A balance needs to be struck between the ability to raise enough money to fund important services to the right level and the impact increasing taxation has on the residents of the County. This balance will be even more difficult this year due to the high level of inflation falling both on our residents and the Council.

Average council tax per dwelling in Powys for 2021/22 was the 3rd highest in Wales, this is particularly sensitive in a county with one of the lowest average wage levels in Wales. Figure 14 compares Powys against Welsh Local Authorities in terms of council tax average cost per dwelling and the Band D average (these figures include all precepts).

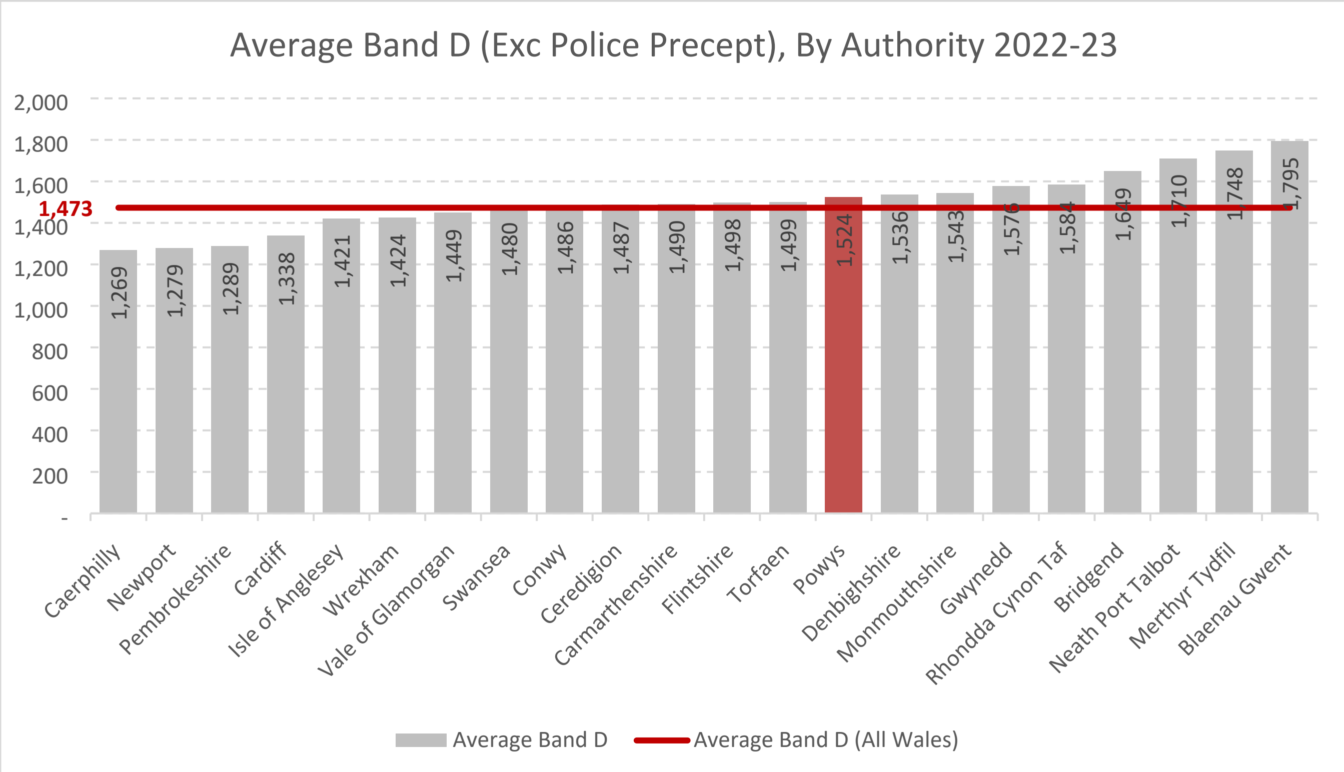
Figure 14: Average Council Tax per Dwelling



For 2022-23, the average annual Council tax bill for a Band D property in Powys was £1,814 (including community council and police precept). This is above the Wales average for Band D properties of £1,777.

Figure 15 shows the Band D Council Tax level for each of the local authorities in Wales (excluding all precepts)

Figure 15: Average Band D by Authority



Council Tax collection rate for 2021-22 was 97.30% (0.3% increase on previous year) which compares with an average of 96.3% for all unitary authorities in Wales. The highest collection rate in Wales for 2021/22 was 98.0%

Council Tax premiums are applied to periodically occupied and empty properties. Currently the premium is set at 50% for both categories. Following a Cabinet decision in February 2022 the premium applied to Properties that are periodically occupied will be increased from 50% to 75% from April 2023. This increase may generate additional income for the council, but the level is uncertain due to the options available, for example, if owners choose to transfer to Business Rates or occupy or sell their property moving it out of the premium and reducing council tax collected. Cabinet has recently approved an increase to the long-term empty premium from 50% to 100% effective from 1 April 2023.

Fees and Charges - 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.

Specific Grants In addition to the AEF, Councils also receive specific grants which are accompanied by specific terms and conditions as to how they can be used. We will receive around £55 million of grant funding next year. These grants can change year on year and where a grant has been reduced or withdrawn, the Council's policy is that the service funded by the grant also reduces or ceases. This creates uncertainty and risk within financial planning.

Budget Reductions – 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.

When considering how we transform our services the following principles will apply: -

- Moving from an organisational focus (supporting our own internal requirements and functional silo's) to a focus that looks to meet our residents and communities' needs.
- Management ethos focuses on improving the outcomes for residents and communities by removing barriers.
- Moving from functional silos to services that effectively meets our residents and communities' demand.

- Decision making is based on a clear set of principles, experience, knowledge, robust evidence and is taken as close to the frontline as possible.
- Continuous improvement informed by timely data which will measure how well we are delivering outcomes for residents and communities.
- Accountable for activities and accepting responsibility, resulting in transparent delivery of effective outcomes.
- We challenge everything we do and will realise the right outcomes using our transformation methodology.
- Partnerships are outcome focused, based on collaboration and strong relationships (working together, stronger together).

Reserves - 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.

4. Risk and Sensitivity Analysis

4.1 Sensitivity Analysis

The MTFS is prepared using the best inflation at this point in time, but as a working document will continue to be updated through until the budget is agreed in February 2023. The volatile economic environment affecting inflation and prices and demands on services means further modelling will take place. The impact of a 1% change on headline figures is shown at Figure 16.

Figure 16

Modelling and impact of changes - £	1%	2%	3%
Council Tax (before CTRS)	- 915,720	- 1,831,440	- 2,747,160
WG Settlement	- 2,102,610	- 4,205,219	- 6,307,829
Pay (Teachers)	570,894	1,141,788	1,712,682
Pay (NJC)	1,073,167	2,146,334	3,219,501
Non-Pay (excluding utilities)	1,083,070	2,166,140	3,249,210

Figure 17 provides the most recent modelling on the settlement from an expected 3.5% to a worst-case scenario of -2%. The cumulative gap is shown between £28.6 million and £41.1 million.

Figure 17

	2023/24	2024/25	2025/26	2026/27	2027/28	Cumulative
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
FRM Net Exp	317,267	340,251	355,937	369,632	384,200	
Current Year Budget	301,872	317,267	340,251	355,937	369,632	
GAP - each year	**15,395**	**22,985**	**15,685**	**13,695**	**14,568**	
Additional Funding						
Council Tax increase - 5% and tax base increase	-6,384	-4,898	-5,143	-5,400	-5,670	
Settlement (3.5%, 2.4%, 2% then on)	-7,359	-5,223	-4,457	-4,546	-4,637	
Net Gap - Each Year	**1,652**	**12,864**	**6,086**	**3,750**	**4,262**	**28,612**
Additional Funding						
Council Tax increase - 5% yr 1, 5% then on	-6,384	-4,898	-5,143	-5,400	-5,670	
Settlement +2%, 2.4% , 2%	-4,205	-5,147	-4,392	-4,480	-4,570	
Net Gap / (surplus)	**4,806**	**12,940**	**6,150**	**3,816**	**4,329**	**32,040**
Additional Funding						
Council Tax increase - 5% yr 1, 5% then on	-6,384	-4,898	-5,143	-5,400	-5,670	
Settlement +0%, 2.4% , 2%	0	-5,046	-4,306	-4,392	-4,480	
Net Gap / (surplus)	**9,011**	**13,041**	**6,236**	**3,903**	**4,418**	**36,609**
Additional Funding						
Council Tax increase - 5% yr 1, 5% then on	-6,384	-4,898	-5,143	-5,400	-5,670	
Settlement -2, 2.4% , 2%	4,205	-4,945	-4,220	-4,304	-4,391	
Net Gap / (surplus)	**13,216**	**13,141**	**6,322**	**3,991**	**4,508**	**41,179**

In previous years' service demography risk has been supported by identified reserves, as this is an estimate of increase rather than a precise figure, in addition this demand occurs throughout the year and only needs part year funding.

Adult Social Care demographics are based on a percentage increase for the 75-79 age group, based on current average packages and equates to one Residential/Nursing placement and one Domiciliary Care package per shire per month, net of any client income. In addition, Learning Disabilities Transitions are based on a known list of service users attaining age of 18 and the likely placement for their care. £1.4 million has been estimated for next year, this could increase or decrease depending on demand.

Childrens services have assumed an additional 59 Children Looked After totaling £1.2 million, these are new placements and assumed at the usual foster care rates.

4.2 Funding the Uncertainty

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

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

The reserves held must be at an appropriate level to mitigate this risk and any unexpected events that may arise: -

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

As has been previously explained, reserves use is not a long-term solution to addressing general budget recurrent problems such as increasing costs. But in the short-term reserves may be a mechanism to address demand and price risk. It is estimated that up to £7 million will be used from specific reserves in 2022/34 to support post Covid pressures and the inflation demands, but as these are now in part becoming recurrent issues, they should be addressed through the FRM. Reserve use to support initiatives to deliver recurrent savings may be needed to smooth over the transition process.

Figure 18: Usable Reserves (excluding the £7 million anticipated use)

Summary	Opening Balance (1st April 21) Surplus / (Deficit)	Forecast Addition / (Use) of Reserves	Projected Balance (31st March 23) Surplus/ (Deficit)
General Fund	9,333	-	9,333
Budget Management Reserve	3,584	- 1,748	1,836
Specific Reserves	29,167	- 9,920	19,247
Transport & Equipment Funding Res	8,843	- 2,080	6,763
Total Usable Reserves	**50,927**	**- 13,748**	**37,179**
Schools Delegated Reserves	8,982	- 93	8,889
School Loans & Other Items	- 371	7	- 364
Housing Revenue Account	4,244	- 145	4,099
Total Ring Fenced Reserve	**12,855**	**- 231**	**12,624**
Total	**63,782**	**- 13,979**	**49,803**

4.3 Risk Management Framework

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

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

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

Having a better understanding of the importance of, and fully implementing, risk management will make a huge contribution to the Council. Better identification of risks and their management will mean that better use of resources is achieved. If we use the resources available to us more efficiently and effectively then the service to our customers can only be improved.

4.4 Key Risks

Budget Delivery Risks

Change Delivery Capacity - sufficient capacity and resource to deliver and implement change projects

Delivery of Cost Reductions - The level of cost reductions required in 2023/24 is significant at £28 million. Any unforeseen delays in implementation will impact on the achievement of the reductions required. Progress on the delivery of approved reductions will be reported to Cabinet monthly. Slippage on the delivery of proposals presents a risk to the budget plan and any resulting overspend would ultimately fall on the council's general fund reserve. However, the emphasis is placed on ensuring reductions are delivered. Plans within service areas need to be managed robustly, to limit any underachievement and monthly budget monitoring and savings delivery monitoring ensures Cabinet has visibility of financial performance and can take corrective action if necessary.

Political Approval of Budget - The Council is required under the Local Government Act 2003 to set a balanced budget for the forthcoming financial year, and this must be approved by Full Council.

Demand - rising demand, particularly post covid has been seen within Social Care and ALN services, modelling future demand is complex and any sensitivity analysis can have high value for small numbers of service users.

Economic Impact – Inflation: increasing costs and pressures for increasing pay awards. Interest Rates : increasing the cost of borrowing and impact on affordability of the Capital Programme.

COVID – Continuing impact of the pandemic, additional costs in response to ongoing measures and impact, Provider and supplier viability, impact on demand

Funding Risks

Variations to Settlement Assumptions - The Council makes every effort to ensure that its assumptions about budget settlements for future years are based upon the best available evidence. However, future settlements cannot be predicted with absolute accuracy and can be influenced by political and economic policy changes.

Grants – we rely on specific grants to support core activity, if these cease, we have to address the implications. Continued rising inflation will erode the value of the funding provided.

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

Debt recovery – Cost of living crisis impact on residents, impacting on their ability to pay council fees and Council Tax.

Treasury Management - The revenue budget and capital programme are supported by daily cash movement managed within our borrowing and investment strategies. The financial climate has a significant impact on these activities. We continue to monitor these daily. Any variation in the cost of borrowing is being mitigated by a proactive approach to refinancing our borrowing wherever possible. This ensures that, wherever possible, our long-term borrowing for our capital projects takes advantage of the historically low level of debt interest.

Mitigation, Review and Monitoring

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

5. Resilience

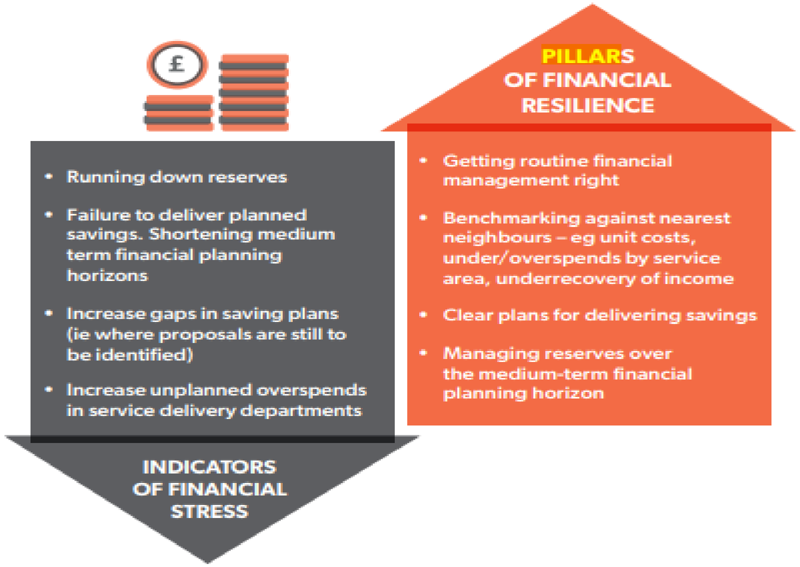
5.1 Financial Resilience

The Council continues to 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. In 2021 an assessment concludes the financial sustainability assessment work during 2020-21 and identified that financial sustainability was a key risk to councils' arrangements before the pandemic occurred. The focus of their report included arrangements to secure value for money in the use of resources and the general trend of decreasing resources for local government combined with rising demand for some services.

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. The delivery of these is monitored through the Regulatory Tracker.

The Council draws upon CIPFA's pillars of financial resilience and indicators of financial stress (Figure 19) as a framework for improvement within its Finance Transformation plan. Symptoms of stress and pillars of resilience are shown in the diagram below:

Figure 19 CIPFA Pillars of Financial Resilience



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. One of the key areas covered by the Code is medium to longer term financial management, with the MTFP being an important factor in this regard. The code emphasises that a robust MTFS should have clear links to Service Plans and Capital Strategy. It should also contain a sound assessment of drivers of cost and demand, with associated sensitivity analysis.