

# CYNGOR SIR POWYS COUNTY COUNCIL

## CABINET EXECUTIVE Date: 16<sup>th</sup> January 2024

**REPORT AUTHOR:** County Councillor David Thomas  
Portfolio Holder for Finance and Corporate Transformation

**SUBJECT:** Draft Medium-Term Financial Strategy 2024-2029, Draft  
2024-25 Budget and Capital Programme for 2024-2029

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**REPORT FOR:** Decision

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### 1. Purpose

- 1.1 To seek Cabinet's approval of the updated draft Medium Term Financial Strategy (MTFS) for 2024-29, which includes a Financial Resource Model (FRM) for 2024-29, a draft revenue budget for 2024-25 and a draft capital programme for 2024-25 to 2028-29.
- 1.2 The Council is required under the Local Government Act 2003 to set a balanced budget for the forthcoming financial year; the MTFS reports a balanced budget for 2024-25. There is no requirement to set out a balanced position beyond the next year but the five-year strategy has been developed to enable longer term planning and transformation.

### 2. Background

- 2.1 The Medium-Term Financial Strategy sets out the financial strategy for Powys County Council (the Council) for the period 2024 to 2029. The strategy captures the financial, regulatory and policy drivers affecting the Council and sets the direction and approach, providing a framework in which the Council develops its financial plans. It also incorporates the plan for delivering a balanced budget for 2024-25, and indicative budgets for the following 4 years to March 2029.
- 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 Council is again developing its financial plans in an extremely challenging economic context and whilst the budget position in the current financial year is being managed, inflation and increased demand for our services continues to create additional pressure on our finances for next and future years. This coupled with the outlook for public finances nationally, the situation across local government is described by the Welsh Local Government Association as "extremely bleak and the options for many local services will be unpalatable".
- 2.4 As a service-driven organisation, workforce costs are a key cost driver across our services, sustained levels of high inflation have resulted in protracted pay negotiations

nationally resulting in increased pay costs for Teachers and Council staff. Pay and cost pressures have been equally challenging for providers of the service that the Council commission and it is inevitable that they seek to pass these on in their pricing.

- 2.5 Continued pressure on energy costs are significantly impacting on our Schools, street lighting and other council property budgets; and construction and material costs continue to be impacted by inflation and have a severe impact on the cost of schemes for both Revenue and more significantly for Capital Projects.
- 2.6 The cost-of-living challenge continues to impact on our local businesses and residents, demand for our services has grown, including increased levels of homelessness and additional referrals to social services, all creating further additional pressure on the Council and its services through 2024-25 and beyond.
- 2.7 Even with additional funding provided through the Settlement from Welsh Government (WG), the stubbornly high levels of inflation currently being experienced means the funding provided is now worth less in real terms. In proposing a balanced budget for 2024-25 difficult decisions are having to be made and will continue as we maintain a balanced budget and over the medium term.
- 2.8 Council approved the previous Medium Term Financial Strategy on the 23<sup>rd</sup> February 2023. In September 2023 Cabinet considered a report which provided an update on the challenging economic context and how this is impacting on the development of the Council's Budget and the Medium-Term Financial Strategy (MTFS). The MTFS has therefore been reviewed and updated and revised assumptions reflected in the plan.
- 2.9 The draft MTFS presented today has been further developed to reflect the updated funding position provided through the provisional settlement provided by Welsh Government on the 20<sup>th</sup> December 2023.
- 2.10 On the 20<sup>th</sup> December 2023 the Minister for Finance and Local Government in her written statement stated that this years budget round has been "*the most difficult of this spending review period*", and in proposing the draft budget Welsh Government "*have had to take incredibly difficult decisions – the starkest and most painful since devolution.*" The Minister recognised that "*Demand for services, alongside cost pressures, caused by persistently high inflation, means local authorities will need to make difficult decisions about services, efficiencies, and council tax as they set their budgets*".
- 2.11 We anticipate that we will continue to face financial pressures that outweigh the funding available throughout the period of our MTFS. It is becoming clear that the Council in its current form is not sustainable for the longer term and plans to reimagine what the Council should look like in the future are currently underway and are critical to ensure that the Council can remain financially stable and provide sustainable services in the long-term.
- 2.12 The updated draft Strategy captures the financial, regulatory and policy drivers affecting the Council and identifies the Council's service and resource priorities for the

next five financial years. It delivers a balanced budget for 2024/25, and indicative budgets for the following 4 years to March 2029.

- 2.13 The proposed Capital Programme reflects the existing commitments made in previous years as well as new schemes already approved. Investment is prioritised to support the delivery of key Council objectives, statutory requirements and to manage corporate risk.
- 2.14 The setting of our budget, and in turn Council Tax, takes account of the full range of funding sources available to us, as well as the pressures we face. The funding position both next year and beyond is set in the context of ongoing uncertainty. As the last year of the spending review Welsh Government have not this year provided indicative allocations for future years. However, analysts describe the outlook as a “worrying picture for the medium-term”, with any additional revenue for Local Government likely to be raised through Council Tax rather than Welsh Government Funding increases. We must plan with this in mind and maintain financial resilience wherever possible.
- 2.15 The Corporate Strategic and Equalities Plan (CSEP) will reflect the Council’s operating environment and priorities and the 2024-27 Plan will be presented to Council for approval, at the same time as the final MTFS is presented at full Council on the 22<sup>nd</sup> February 2024. This will ensure the Corporate Strategic and Equality Plan and MTFS are aligned, enabling the reader to make explicit links between the Council’s priorities and the resources directed to support them.
- 2.16 During 2024 we will continue to focus on our six key equality objectives which are:
- improving outcomes for children living in poverty,
  - preventing homelessness,
  - enabling people with a disability to gain valued occupation,
  - improving the availability of accessible homes,
  - improving digital inclusivity, and
  - ensuring equality of opportunity and taking action to close the pay gap for all our staff.
- 2.17 We are also actively contributing towards creating a Net Zero public service by 2030 and have developed a Biodiversity Action Plan and Climate Change Strategy as part of our ongoing efforts to reduce the negative impact that our activities have on the environment.
- 2.18 The Council’s MTFS is set within the context of UK economic and public expenditure plans, WG priorities and legislative requirements. It articulates how the Council plans to use its resources (revenue and capital) to support the achievement of its corporate priorities as well as the management of its statutory and core duties, known pressures and risks. The MTFS helps the Council to work more effectively with partners in other sectors and provides a strategy for the use of reserves to meet changes in resources, risks or unforeseen demands from year to year without impacting unduly on services or council taxpayers.
- 2.19 The draft MTFS includes the:

- principles that will govern the strategy and a five-year Financial Resource Model (FRM), comprising detailed proposals for 2024-25 and outline proposals for 2025-26 to 2028-29.
- Capital Financing Strategy and the Treasury Management Strategy; and Capital Programme for 2024-25 to 2028-29.

2.20 The Cabinet and the Corporate Leadership Team have developed the draft MTFS to guide the development of the proposed 2024-25 draft budget, the FRM and the draft Capital Programme. At the same time as updating the MTFS, the Council is legally required under the Local Government Act 2003 to set a balanced budget for the forthcoming financial year by the 11<sup>th</sup> of March each year.

2.21 Production of the draft budget for the forthcoming year is dependent on receipt of the provisional local government settlement from the WG which for 2024-25 was published on 20<sup>th</sup> December 2023. This report provides a draft Budget for 2024-25 for Cabinet's approval, subject to which it will be considered by the Council's Scrutiny Committees before a final budget is presented to full Council for approval on 22<sup>nd</sup> February 2024. The Welsh Government draft budget will be scrutinised and the final budget will be published on 5<sup>th</sup> March 2024; if there are any late changes these would need to be made and presented to Council at the meeting on the 7<sup>th</sup> March 2024 for further approval or at a further meeting of Council if required.

### 3. **Advice**

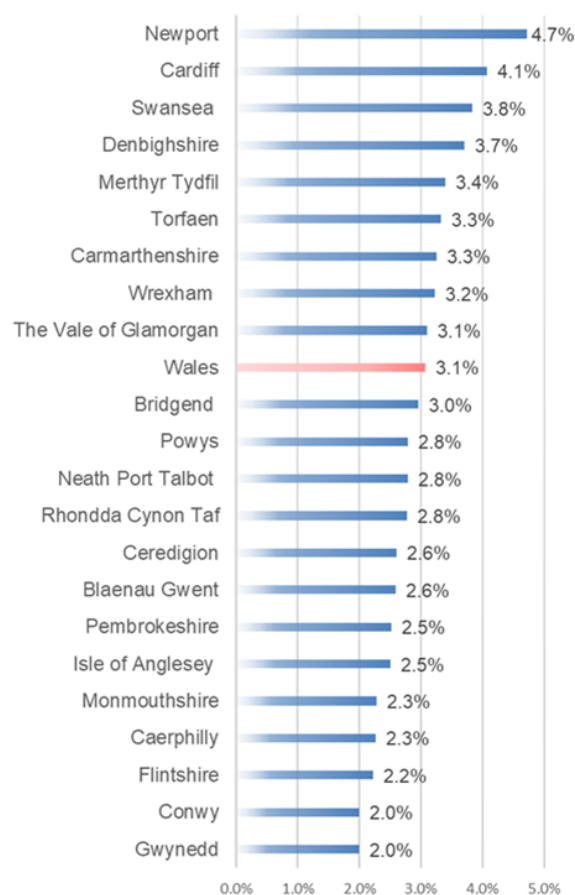
#### **Welsh Government Provisional Local Government Settlement**

- 3.1 The Local Government Revenue Settlement comprises Revenue Support Grant (RSG) and redistributed National Non-Domestic Rates (NNDR) revenues and is known as Aggregated External Finance (AEF). In 2024-25, local authorities will receive £5.7 billion from the Welsh Government Revenue Support Grant (RSG) and non-domestic rates (NDR) to spend on delivering key services. An increase in core revenue funding for local government of 3.1% on a like-for-like basis compared to the current year. The Minister has implemented a floor mechanism at 2% which benefits two authorities and is funded from outside the settlement at a cost of £1.3m.
- 3.2 The Welsh Government has increased AEF (Aggregate External Finance) by £170m. To put that in the context current pressures across local government budgets, are estimated at around £809m for 2024-25 which includes teachers' and firefighters' increased pensions costs.
- 3.3 WG continue with their commitment to local government being at the frontline of delivering a wide range of vital public services. Recognising that 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.
- 3.4 A number of protections are in place for school funding under the Education and Welsh Language portfolio, and a consolidation of grant funding streams to enable local authorities to have more flexibilities to react and deliver in these changing circumstances. The new School Standards funding in our Local Authority Education Grant will protect funding in relation to the Recruit, Recover and Raise Standards programme which was established to help learners overcome the negative effects of

the pandemic. Also protected is the Pupil Development Grant funding that funds schools to support learners from low-income households.

- 3.5 Funding that goes directly to schools has been prioritised. For 2024-25 the amalgamation of pre-16 education grants provides the same level of funding against similar grants provided to local authorities in 2023-24; this is also a 3.2% rise against the 2024-25 indicative budget for those same grants.
- 3.6 Social services continue to be a priority for Welsh Government. The costs of enabling authorities to continue to meet the additional costs of introducing the Real Living Wage for care workers were included in the indicative budget increase announced last year.
- 3.7 Businesses and other ratepayers in Wales are supported with a package of non-domestic rates support. The increase to the non-domestic rates multiplier for 2024-25 will be capped at 5%, at a recurring annual cost of £18m. This is lower than the 6.7% increase that would otherwise apply. Ratepayers will continue to be supported with increased liabilities following the 2023 nondomestic rates revaluation. The transitional relief scheme continues to phase in changes for eligible ratepayers at a cost of £38m in 2024-25.
- 3.8 Outside of the Settlement, alongside the multiplier cap, Welsh Government will be investing an additional £78m to provide a fifth successive year of support for retail, leisure and hospitality businesses with their non-domestic rates bills. This builds on the almost £1bn of support provided through the retail, leisure and hospitality rates relief schemes since 2020-21. Eligible ratepayers will receive 40% non-domestic rates relief for the duration of 2024-25. As in previous years, the relief will be capped at £110,000 per business across Wales.
- 3.9 On a like-for-like basis specific revenue grants will decrease from £1.438bn to £1.353bn, across Wales, which is reduction of about 6.3% or around £92m.
- 3.10 The Graph below shows changes to Aggregated External Finance across the Local Authorities in Wales between 2023-24 and 2024-25. The average increase is 3.1% 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 Gwynedd with 2.0% and the highest is Newport with an increase of 4.7%.

**Table 1: Changes to AEF by local authority, 2023-24 to 2024-25**



Source: WG Provisional LGF Settlement 2024-25

3.11 The graph confirms that funding in Powys has increased by 2.8% after adjusting for transfers; this equates to an additional £6.381 million for 2024-25.

3.12 WG funding is allocated to unitary authorities using a formula driven by a number of 'indicators' (e.g. population projections, pupil numbers, primary school free school meals and income support, job seekers allowance or pension credits claimants). The movement in these indicators, relative to the movement in the indicator for Wales as a whole, affects Powys' share of the overall funding available. 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.

**Table 2: Change in Key Datasets**

Dataset <sup>1</sup>	2023-24 Final	2024-25 Provisional	% Difference	Rank	% share 2022-23	% share 2023-24	Change in % share	Rank
Total Population <sup>2</sup>	132,885	133,891	0.8%	3	4.23%	4.28%	0.05%	3
Pupil Numbers - Nursery and Primary	9,572	9,554	-0.2%	5	3.72%	3.75%	0.03%	5
Pupil Numbers - Secondary in year groups 7-11	6,393	6,522	2.0%	9	3.75%	3.75%	0.00%	9
Free School Meals - Primary	1,304	1,637	25.5%	17	2.54%	2.48%	-0.06%	16
Free School Meals - Secondary	827	1,086	31.3%	18	2.65%	2.52%	-0.13%	16
IS/ JSA/ PC/UC (not in employment) claimants - 18 to 64	4,281	5,107	19.3%	2	2.60%	2.72%	0.12%	2
IS/ JSA/ PC claimants - 65+	3,626	3,468	-4.4%	8	4.03%	4.04%	0.01%	10
IS/ JSA/ PC/UC (not in employment) claimants - all ages	8,017	8,731	8.9%	6	3.11%	3.14%	0.03%	5
SDA/DLA/PIP claimants - 18 to 64	4,735	5,037	6.4%	13	3.10%	3.09%	-0.01%	14

Notes:

- 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 2023-24 final settlement an average of the 2018-based local authority projections for 2023 and the 2021 census data and for the 2024-25 Provisional settlement the mid 2022 population estimates.

3.13 While the un-hypothecated (non-earmarked) settlement is the largest single source of funding available to authorities, it is not the only one. The Council also funds its expenditure by generating income from grants, fees and charges and Council Tax. In setting the budget and Council Tax levels for next year, Welsh Government expects every local authority to take account of all the available funding streams and to consider how to secure best value for Welsh taxpayers through effective and efficient service provision.

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

3.14 WG general capital funding for local government for 2024-25 will remain at £180 million after being increased by £30m last financial year.

3.15 For Powys, the capital budget is made up of two elements; the un-hypothecated (supported) borrowing element which decreases by £5,000 and the General Capital Grant allocation decreasing by £6,000. The split is:

- Supported borrowing £4.582 million
- General Capital Grant £4.705 million.

3.16 WG recognise the need to maintain focus on responding to the climate and nature emergency and contributing to the Net Zero Wales plan and are providing separately £20 million capital in each year to enable authorities to respond to the joint priority of decarbonisation.

### **Final Local Government Settlement**

3.17 The publication of the Settlement in mid-December has enabled WG to draw on the latest tax-base figures for 2024-25, 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, and whilst noting the financial uncertainty, WG do not intend making any significant changes to the methodology or the data underpinning the distribution of the Settlement.

3.18 Welsh Government is due to publish its Final Budget and Final Local Government Settlement for 2024-25 on 5<sup>th</sup> March 2024.

### **Current Year (2023-24) Financial Performance**

3.19 The impact of inflation, workforce and supply chain issues have had a significant impact on the Councils budget in the current year. Rising costs for fuel, food, and energy together with contractual uplifts linked to inflation have all increased the financial pressure on our budget in 2023-24. Employee Costs have also increased as national pay awards saw Teachers pay increase by 5% from September 2023 and other council employees receive an average increase of 6.94% this year, ranging from 3.5% to 8.31% across the scale points. As materials and contractor costs increase and the cost of borrowing becomes more expensive then pressure is also felt on our Capital Budget.

3.20 The cost-of-living challenge is also impacting on our local businesses and residents and this creates additional pressure on the Council as demand for our services increases.

3.21 Many of these pressures were considered when the 2023-24 budget was approved last March and the council is managing its budget position this year through virements and drawing on the revenue risk budget set aside to add the resilience needed. At the end of September 2023 (Quarter two) the projected position reported was a surplus of £2.85 million.

**Table 3: Reserves Summary as at 30<sup>th</sup> September 2023**

Summary	Opening Balance (1st April 23) Surplus / (Deficit)	Budgeted (Use) of Reserves	Forecast (Over) / Under Spend	Projected Balance (31st March 24) Surplus/ (Deficit)
General Fund	9,333	0	935	10,268
Budget Management Reserve	3,584	0	0	3,584
Specific Reserves	35,329	(6,990)	(813)	27,526
Transport & Equipment Funding Reserve	9,460	(1,043)	0	8,417
<b>Total Useable Reserves</b>	<b>57,706</b>	<b>(8,033)</b>	<b>122</b>	<b>49,795</b>
Schools Delegated Reserves	6,666	(5,082)	(1,438)	146
School Loans & Other Items	(371)	7	0	(364)
Housing Revenue Account	3,967	0	0	3,967
<b>Total Reserves</b>	<b>67,968</b>	<b>(13,108)</b>	<b>(1,316)</b>	<b>53,544</b>

3.22 Reserves are held to mitigate unexpected risks and the use of reserves this year will ensure that we meet our statutory responsibility to deliver a balanced budget, however, the challenging environment is not going to end at the end of this financial year, we must ensure that we deliver council services within the resources we are allocated on an annual basis. Holding sufficient reserves to manage the ongoing risk as we move into future years is key to maintain our financial sustainability.

3.23 The position will continue to be monitored and will be updated when the quarter 3 position is finalised and reported in late January 2024.

### **Draft MTFS 2024-29**

3.24 The draft MTFS for the next five years is attached at Appendix A, based on the latest information available. It does not include fixed funding, expenditure or activity projections, but sets out a five-year budget forecast for the resources that are likely to be available. The MTFS is reviewed regularly and will be amended as additional information becomes available, with the detail for future years being developed over the period of the strategy.

3.25 Implementation of the MTFS will continue to be led by Cabinet and Senior Leadership Team (SLT) <sup>1</sup>, supported by robust financial and performance data. The Council will seek to ensure that it is widely understood by internal stakeholders (Members, employees and Unions) and external stakeholders (citizens, businesses and partners).

<sup>1</sup> SLT comprises the Chief Executive Officer, 4 Corporate Directors and 12 Heads of Service)



As well as linking explicitly to the Council's corporate priorities, the MTFS also links to other internal resource strategies such as the Workforce Plan, the Digital Powys Strategy, the Treasury Management and Capital Strategy, Asset Management Plans and the Council's Transformation Programme including Sustainable Powys work. Integrated Business Planning is now embedded into the Council's planning framework and budget cycle and captures the output from each service to populate the overarching Councils plan.

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

- 3.26 Over the past few years, the Council has sought to engage Powys citizens, local councillors, partners and the workforce in the budget development process. This included providing more information to the public and undertaking specific consultation on proposals. These have created the opportunity for residents to influence service delivery and helped define the priorities for the Council.
- 3.27 This year the budget survey closed on the 7<sup>th</sup> January 2024 and focused on balancing the limited funding against rising costs and growing demand for our services.
- 3.28 Further engagement during 2024 will offer residents further opportunity to help us redesign the Council for the future and engagement with Town and Community Councils and partners will be fundamental in developing local, community led solutions and building community resilience.
- 3.29 Members of the Council have engaged in the budget planning process through member budget seminars which have given Councillors the opportunity to review and challenge the process. The Finance Scrutiny Panel (comprising Group Leaders of Non-Executive Groups and Audit Committee representatives) have also been engaged during the process and financial assumptions have been shared with members.
- 3.30 This report presents the detailed draft budget for 2024-25 and each of the Council's Scrutiny Committees will have the opportunity to consider the implications of the draft budget for the service areas within their remit over the next few weeks. The Committees will then be able to provide feedback to the Cabinet for consideration before the final MTFS, 2024-25 budget and 2024-29 capital programme are presented to full Council for approval on the 22<sup>nd</sup> February 2024.

### **MTFS Principles**

- 3.31 The draft MTFS provides a set of clear principles which will drive the Council's budget and spending decisions over 2024-29 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 strive 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 continually reviewed 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 release of surplus assets will be based on an assessment of the contribution the asset makes, the impact holding the asset on the revenue budget and the capital programme.
10. Budgets will be managed by Directors and members of CLT in accordance with the Council's Financial Procedure Rules, flexibility through the virement process is fundamental to allow this.

### **Financial Resource Model**

- 3.32 The MTFS includes a Finance Resource Model (FRM) which provides a financial plan for the forthcoming five financial years. This is provided at Appendix B.
- 3.33 As it is the last year of the spending review Welsh Government have not this year provided indicative allocations for future years. However, we have drawn on the work undertaken by Wales Fiscal Analysis (WFA). WFA is a research body within Cardiff University's Wales Governance Centre that undertakes authoritative and independent research into the public finances, taxation, and public expenditures of Wales. Their work analysing the medium-term fiscal outlook for local government in Wales describes the outlook as a "worrying picture for the medium-term", with any additional revenue for Local Government likely to be raised through Council Tax rather than Welsh Government Funding increases.
- 3.34 On this basis our modelling is now predicated on funding scenarios that look at flat cash or even negative settlements of -2%.
- 3.35 Other assumptions about cost drivers such as pay and price inflation, demographic and other service change, together with early estimates for cost reductions delivered through our transformational activity are also included. Recurrent future year cost reductions of £16.5 million are already identified and included. All the scenarios

include an annual council tax increase with 7.5% included for 2024-25 and 5% per annum increases from 2025-26 onwards.

3.36 Table 4 below sets out the gap between the Council’s net budget requirement and the possible funding available until 2028/29 based on the expected funding as set out in the MTF5. An overall gap of £64.6 million is shown and this will need to be addressed through realigning budgets to match the funding available.

**Table 4**

	2024/25	2025/26	2026/27	2027/28	2028/29	Cumulative
	£'000	£'000	£'000	£'000	£'000	£'000
FRM Net Exp	340,701	360,013	379,290	394,735	411,400	-
Current Year Budget	326,620	340,701	360,013	379,290	394,735	-
<b>GAP - each year</b>	<b>14,081</b>	<b>19,312</b>	<b>19,276</b>	<b>15,446</b>	<b>16,665</b>	<b>-</b>
<b>Additional Funding</b>						
Council Tax increase (+7.5% and tax base increase, +5% then on)	-7,806	-5,632	-5,931	-6,246	-6,577	
Settlement (2.8%, -2% then on)	-6,275	4,699	4,605	4,513	4,422	
<b>Net Gap - Each Year</b>	<b>0</b>	<b>18,379</b>	<b>17,950</b>	<b>13,713</b>	<b>14,510</b>	<b>64,552</b>

### **Draft Revenue Budget 2025-29**

3.37 It is clear that the Council in its current form is not sustainable for the longer term, in response to this challenge the Council has embarked on a programme of change to reimagine what the Council should look like in the future to ensure that it can remain financially stable and provide sustainable services in the long-term.

3.38 Delivering valued local government services is at the heart of all we do. With changing times and economic conditions, we need to be pro-active, innovative and forward-thinking to deliver effective public services for the future.

3.39 We recognise the challenge and we want to work in partnership to explore the opportunities to make the changes needed to build the stronger, fairer and greener future for Powys.

3.40 “Sustainable Powys” will review what services we provide and how they are provided to meet current needs whilst ensuring we have innovative solutions to provide the best services adapted for our future generations. It is about working together to design a future for our local authority that delivers stronger, fairer and greener services whilst reducing our costs.

3.41 Our work has gained momentum over the last year. As this work progresses, proposals will be developed for consideration before inclusion in our budget plan. 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.

3.42 Significant uncertainty remains reflecting the continued economic volatility. It is in this environment that the setting of a robust base budget based on sound assumptions is fundamental, together with an assessment of the risk that remains. The inclusion of an annual “risk budget” and the holding of sufficient reserves ensures that the council can effectively manage this risk and maintain financial stability.

## **Levies for Mid and West Wales Fire Authority and the Brecon Beacons National Park**

- 3.43 The council is required to provide funding to support both the Mid and West Wales Fire Authority (MAWWFRA) and the Brecon Beacons National Park via a levy.
- 3.44 Under the provisions of paragraph 21.2 in part IV of the Mid and West Wales Fire Services (Combination Scheme) Order 1995, as amended, the Fire and Rescue Authority is required, before the 31<sup>st</sup> December in any year, to submit to each constituent authority an estimate of its expenses for the next financial year. Accordingly, the Chief Fire Officer has served formal notice that the estimated Net revenue budget requirement for the Mid and West Wales Fire and Rescue Authority for the 2024-25 financial year is £68,554,900, an increase of 9.4%. This increase is in addition to the 17.53% increase levied last year.
- 3.45 The budget requirement is levied across the 6 constituent Local Authorities based on population. A change in the population dataset see Powys proportionally facing a higher percentage increase in its share of the levy. The final amount for Powys will be confirmed at a meeting of the Fire Authority on the 12<sup>th</sup> February, 2024.
- 3.46 The Councils budget therefore includes an estimate of £10,171,354 for 2024-25, an increase of £1,090,344 (12.0%) from that provided in 2023-24. This amount is funded in part through the local government settlement with the remainder being met from Council Tax. The significant increase next year is due to grant funding ceasing for Firefighter Pensions or Firelink which will now fall on the Constituent Authorities in 2024/25 through the levy.
- 3.47 The levy for the Brecon Beacons National Park is estimated at £664,775.

### **2024-25 Net Budget Requirement**

- 3.48 The net budget requirement is the amount of budget the Council requires to fulfil its functions. It is calculated taking the output of each of the service integrated business plans; these identify the resource requirements for each service to deliver their statutory functions, the Corporate Strategic and Equality Plan and service improvement objectives offset by budget reduction proposals.
- 3.49 Table 5 below sets out the proposed draft net budget for 2024-25 at £340.7 million, including the Delegated Schools' Budget.

### **Table 5: 2024-25 Draft Revenue Budget**

	Base Budget 2023-24	Pay Award 2024-25	Non Pay 2024-25	Demography	Pressures	Savings	2023-24 Undelivered Savings	Uplift in Schools Funding	Proposed Budget for 2024/25	Increase in Budget Allocated	% Increase
Schools Delegated	83,837	0	0	(27)	0	0	0	3,600	87,410	3,573	4.2%
Education	17,595	365	123	0	202	(814)	0	0	17,471	-124	-0.7%
HTR	33,365	1,041	701	0	1,323	(2,122)	353	0	34,661	1,295	3.9%
Housing	692	32	20	0	0	0	0	0	744	52	7.5%
Community Development	6,788	336	130	0	23	(1,650)	0	0	5,627	-1,161	-17.1%
PPPP	6,638	331	45	0	72	(280)	0	0	6,805	167	2.5%
ASC Commission	3,019	135	7	0	0	0	0	0	3,161	142	4.7%
ASC	80,664	870	88	722	8,553	(1,614)	0	0	89,282	8,618	10.7%
Children	29,482	694	107	0	1,535	(2,386)	0	0	29,432	-50	-0.2%
Finance	6,918	247	140	0	0	(210)	0	0	7,095	177	2.6%
Transf/Dem	3,877	156	14	0	35	(34)	0	0	4,048	171	4.4%
WOD	2,544	129	69	0	0	(5)	0	0	2,737	193	7.6%
Digital	6,380	238	108	0	0	(443)	0	0	6,283	-97	-1.5%
Legal	1,494	65	6	0	134	(95)	0	0	1,604	110	7.4%
Corp	43,328	0	2	0	2,011	(1,000)	0	0	44,341	1,013	2.3%
<b>Total</b>	<b>326,620</b>	<b>4,639</b>	<b>1,560</b>	<b>695</b>	<b>13,887</b>	<b>(10,653)</b>	<b>353</b>	<b>3,600</b>	<b>340,701</b>	<b>14,081</b>	<b>4.3%</b>

3.50 Table 5 shows the Council's 2023-24 base budget and proposed changes across each service to provide a base budget for 2024-25, the columns set out the financial pressures falling on each service together with the savings that are proposed.

3.51 Inflationary Pressures and additional services cost pressures of £18.2 million as detailed in Appendix F include:-

- Pay Awards for Council staff set nationally – £4.6 million projected for 2024/25 awards;
- Non-pay general inflation £1.6 million;
- Uplift for Pay and Non-Pay pressures across schools including changes to pupil numbers - £3.6 million;
- Demographic changes, contractual obligations, Real Living Wage commitment and Service Demand across Adult Social Care - £8.6 million;
- Service Demand pressures across Children Services - £730,000;
- Additional costs for Unaccompanied Asylum Seeker Children (UASC) - £800,000;
- Contractor and material cost increases across Highways Transport and Recycling Services - £1.3 million;
- Corporate Pressures – Fire levy £1.1 million and Council Tax Reduction scheme - £740,000.

3.52 Schools across Powys continue to face significant financial pressure through Pay, energy and other costs. The budget proposal includes additional funding of £3.6 million directly into schools delegated budgets. This 4.2% increase is above the level of increase received by the Council in AEF (2.8%), and reflects the priority Education has from the Council, but based on the funding settlement received we are unable to fully protect schools from some of the burden facing the Council. Governing Bodies, like other council services, will need to consider how they manage their pressures. School reserves have been drawn upon during the current financial year to manage the additional pressure they have faced this year, but these can only be used once and Governing Bodies will have to make difficult decisions as to how they realign their budgets within the funding available to them. In addition to the funding provided by the Council, schools will again receive specific WG grant funding as set out in paragraphs 3.4 and 3.5 of the report.

- 3.53 The level of increase across the Councils services cannot be fully supported by Welsh Government funding and increases in Council Tax and in order to bridge the gap in the budget for 2024-25 significant cost reductions and savings have had to be considered.
- 3.54 The budget plan includes proposals to remove £10.7 million from the revenue budget next year, each proposal is provided at Appendix C. These reductions have focused on delivering services that are more efficient or that can be delivered at a reduced cost, alternative sources of income and increased fees and charges have also been implemented. Limiting the impact on the delivery of front-line services as much as possible within the financial constraints.
- 3.55 The second year of the phased reduction in the employers Pension contributions, following the triennial actuarial review of the Powys Pension Fund from April 2023, estimated at £500,000 will further reduce costs.
- 3.56 But inevitably there will be some reductions in service, or changes to how or from where services are delivered. Some staffing reductions will have to be made, removing vacant posts where appropriate but some redundancies are also planned.
- 3.57 The impact of the proposals has been carefully considered to fully understand the impact on residents and service users and to assess the impact on future generations in line with the duties aligned to the Well-being of Future Generations (Wales) Act 2015. The impact of the budget has been assessed in an overarching Impact Assessment, but where proposals have a more specific impact on residents or service users separate individual Impact Assessments are provided, details are attached in Appendix I.
- 3.58 Delivery of these cost reductions will be essential to deliver a balanced budget. Assurance must be provided to Council that the budget is robust and that the reductions included in it are deliverable. This will also enable the Council and the Statutory Chief Finance Officer (S151) to sign off the budget with confidence. For the proposed budget, sessions have been held with officers to challenge and test both the service pressures being submitted and the deliverability of each proposal presented. CLT has provided assurance to Cabinet that they can deliver the cost reductions within the required timescales, whilst also reflecting on any risks.
- 3.59 The revenue budget has included a “risk budget” for a number of years to assist in managing the risk around the delivery of cost reductions or additional service pressures that arise, this is assessed alongside the level of reserves that are held. Due to the ongoing uncertainty and volatility being experienced it is proposed to maintain this budget at £3 million for 2024-25.

### **Financing the Draft Net Budget for 2024-25**

- 3.60 The Council's gross budget reflects the totality of the Council's costs including salaries and wages, the purchase of goods and services, premises costs and the revenue cost of financing our capital programme. The gross budget is financed by all the Council's income sources including AEF, council tax, fees and charges, specific grants and contributions from other bodies.
- 3.61 Income from fees and charges makes a significant contribution (c£77 million per annum) to the Council's budget and the Council's approach to income generation is included in the MTFs.

- 3.62 The budget proposed for 2024-25 includes increasing of fees and charges in line with inflation, where permitted, and where appropriate, the principle of full cost recovery has been applied. The Fees and Charges register has been updated and it, together with an explanatory note, is attached as Appendix D and E.
- 3.63 The financing of the net budget comes from the Welsh Government settlement and Council Tax income. Table 6 summarises the 2024-25 budget requirement and how it will be financed and shows that Council Tax funds 31% of the Councils' net budget.

**Table 6**

	2023/24	2024/25	Change
	£'000s	£'000s	£'000s
AEF (RSG and NNDR Allocation)	228,665	234,940	6,275
Council Tax	97,956	105,761	7,806
<b>Total Funding</b>	<b>326,620</b>	<b>340,701</b>	<b>14,081</b>

- 3.64 As can be seen, the balancing of the Council's 2024-25 budget is dependent upon a 7.5% increase in the Council Tax in 2024-25, generating £7.35 Million, and £0.46 Million delivered through changes to the council tax base. 6.5% to support Council Services with a further 1.0% to support the £1.1 million increase in the Fire Levy as set out in paragraph 3.46 of this report. In proposing this increase, there has been careful consideration to affordability for Powys residents in light of the cost-of-living crisis, together with the ongoing need to meet increasing demand and inescapable cost pressures on vital local services upon which they rely.
- 3.65 The setting of Council Tax is not subject to approval as part of this report, as this is a matter for full council determination. However, the report recommends the level of Council Tax to be included in the budget that goes to full Council on 22<sup>nd</sup> February 2024. On 7<sup>th</sup> March 2024 full Council meets to set the Council Tax in line with the final budget. This meeting does not reopen the budget but ensures the Council sets Council Tax for billing purposes.

### **Draft Capital Programme 2024-29**

- 3.66 The Capital and Treasury Management Strategies are fundamental to the effective delivery of the Council's priorities and Vision. The provision of the right assets in the right place at the right time will ensure the effective and efficient delivery of a comprehensive range of quality services.
- 3.67 The draft strategy document at Appendix H provides a high-level, long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, whilst considering the risks how these will be managed and the implications for future financial sustainability.
- 3.68 Capital schemes across the council continue to be impacted by rising costs as materials and contractor costs increase. The cost of borrowing has also become more expensive as interest rates rise.
- 3.69 Maintaining the capital programme has a significant regeneration impact for the economy of Powys alongside the direct effect of better infrastructure to deliver

services. Capital investment also has a significant input into the delivery of revenue cost reductions, and it is essential that both budget strategies are developed in tandem.

3.70 Broadly, the programme covers three areas of expenditure. These are:

- a core programme of schemes that are regulatory / statutory in nature, and minimise legal challenge or revenue risk, these schemes are related to day-to-day activities that will ensure the Council meets its statutory requirements;
- a retained asset programme to improve or enhance the life of existing assets; and
- an investment programme in schemes linked to the Council's strategic priorities.

3.71 The key aims of the Capital Strategy are to:

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

3.72 A Governance Framework is in place for the development of the Capital Programme, based on the Welsh Government Better Business Case approach; each project is developed through a series of gateways ensuring that the business case is robust and fully considers the benefits and costs of the individual project and that they align with the Council's vision. This enables the council to prioritise its capital investment whilst ensuring affordability. Governance has been strengthened further by the introduction of the Capital Oversight Board which provides oversight, challenge and assurance of the development, management and control of the Capital Programme, including changes in scope, cost, outputs and outcomes.

3.73 The Capital Programme is supported financially from a number of sources and this is detailed in the Strategy. In order to minimise costs against the Councils revenue budget the programme will be supported by other sources of funding before incurring



borrowing. Capital receipts are an important means of increasing the affordability of the Capital Programme. The generation of capital receipts is also consistent with the need to accelerate a reduction in the Council's asset base where this can support savings requirements or reduce maintenance liabilities and the carbon output of the Council. Accordingly, the target figure to achieve in capital receipts each year is increased £10 million to support our Capital Strategy. The release of assets will be delivered through the review and rationalisation of our assets as we prioritise our property estate to deliver the Sustainable Council for the future.

- 3.74 The Council has moved away from an annual capital cycle and using the new framework will have an ongoing process of projects in development through to approval at Cabinet and Council as needed.
- 3.75 The Capital Strategy is attached as Appendix H. The strategy sets out the priorities for the next 5 years with the provisional Capital Programme totalling £406 million (including the Housing Revenue Account (HRA)). This is a significant commitment. The Capital Programme is included in Appendix H as part of the Capital Strategy.
- 3.76 The Capital Programme also identifies £14.39 million over the next three years of unallocated investment which has been set aside to meet the costs of current pipeline projects and programmes currently being progressed through the Outline Business Case gateway. Also included is initial estimated funding for the Mid Wales Growth Deal.
- 3.77 The Capital Strategy for future years will need further development and the Capital Programme will be reviewed and reconsidered 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.

### **Draft Treasury Management Strategy**

- 3.78 A draft Treasury Management Strategy which is included within the attached Appendix H sets out how the Council will ensure that it has enough funding available to fund its revenue and capital requirements and an appropriate strategy for borrowing and investing for the financial year 2024-25 and details the expected activities of the Treasury function. The Treasury Management Strategy and Annual Investment Strategy is recommended to Full Council for approval in February.

### **Prudential Indicators**

- 3.79 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the local authority are affordable, prudent and sustainable. The statutory Prudential Indicators are shown in full within the Capital and Treasury Management Strategy Appendix H. The tables include the revised estimate for 2024-25, as well as the indicators through to 2028-29.
- 3.80 The key indicator of affordability is the estimate of the ratio of financing costs to net revenue stream, in section 3.17 of Appendix H. The ratio of financing costs for the council fund is 3.7% in 2023-24, peaking at 3.9% in 2025-26 and then falling back in 2026/27 and returning to 3.9% in 2028-29. The amount of HRA income required to pay for financing increases is 17.1% in 2023-24 rising to 23.0% in 2028-26.

- 3.81 The capital financing requirement (CFR) is shown at section 2.36 of the Appendix H and is the measure of the authority's underlying need to borrow for a capital purpose. It is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue. The CFR is estimated to be £335 million in 2023-24 and will rise to £400 million by the end of 2028-29, and £112 million increasing to £188 million for HRA debt.
- 3.82 The operational boundary, in Appendix H section 3.28, and authorised limits for external debt in section 3.31 both reflect the Treasury Management policy and are set at a level to be affordable and prudent.
- 3.83 The authorised limit for 2024-25 will be the statutory limit under Section 3(1) of the Local Government Act 2003. It is recommended that the level for the authorised limit is set at £514 million and the Operational Boundary is set at £499 million.
- 3.84 The Minimum Revenue Provision (MRP) Policy Statement is included at Section 2.45 in Appendix H.
- 3.85 MRP is an annual charge that Councils are required to pay for their debt liability in respect of capital expenditure funded by borrowing, for both the general fund and the Housing Revenue Account debt. This capital expenditure is set out as part of the CFR calculation and updated regularly to reflect borrowing need changes and the resultant costs; it is important to ensure that the debt is repaid over a period commensurate with that over which the capital expenditure provides benefit.
- 3.86 MRP Overpayments - A change introduced by the revised Welsh Government MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. On the 31<sup>st</sup> March 2023 the total balance of previous voluntary revenue provision (VRP) stands at £7.11 million, of which £1.41 million relates to the HRA. There is no intention to reclaim any of this at this point. Holding this provision is prudent and increases the resilience in the financing of the Capital Programme, particularly in the current period of uncertainty and volatility.

## **Reserves**

- 3.87 The Council's reserves are key to our financial planning; maintaining these at an appropriate level is central to our financial resilience and sustainability. They provide a safeguard against risk, unusual events and future financial pressures.
- 3.88 In assessing the appropriate level of reserves, the Authority will ensure that the reserves are not only adequate, but also necessary and will be appropriate for the risk (both internal and external) to which it is exposed.
- 3.89 The holding of reserves has been critical to managing our budget this year faced with the unprecedented rise in inflation and the impact this has had on the Council's budget. This has reiterated the need to hold sufficient reserves to provide the financial resilience the Council needs.

- 3.90 The Reserves Policy (Appendix G) establishes a framework within which decisions are made regarding the level of reserves held by the Council and the purposes for which they will be maintained and used.
- 3.91 The use of reserves and the levels at which they are maintained is determined on an annual basis as part of the Council's Budget setting process.
- 3.92 There is no statutory minimum regarding the level of reserves that should be held. Instead, decisions should reflect the individual position of each council. Reserves are a finite resource and so their use to fund ongoing commitments creates a gap in the finances of future years and erodes our financial sustainability. Benchmarking shows that Powys' reserves are not excessive but are nearer the minimum level of acceptability; we must not plan our budget based on utilising our reserves, they must remain at a level that provides a reasonable level of financial resilience in an ever-challenging environment.
- 3.93 The level of reserves held, and their forecast use is reported to Cabinet as part of the budget monitoring report and Table 7 below reports the opening and projected balance of the reserves at year end. This is based on the position as at 30<sup>th</sup> September 2023.

**Table 7 – Reserves as at 30<sup>th</sup> September 2023**

Summary	Opening Balance (1st April 23) Surplus / (Deficit)	Budgeted (Use) of Reserves	Forecast (Over) / Under Spend	Projected Balance (31st March 24) Surplus/ (Deficit)
General Fund	9,333	0	935	10,268
Budget Management Reserve	3,584	0	0	3,584
Specific Reserves	35,329	(6,990)	(813)	27,526
Transport & Equipment Funding Reserve	9,460	(1,043)	0	8,417
<b>Total Useable Reserves</b>	<b>57,706</b>	<b>(8,033)</b>	<b>122</b>	<b>49,795</b>
Schools Delegated Reserves	6,666	(5,082)	(1,438)	146
School Loans & Other Items	(371)	7	0	(364)
Housing Revenue Account	3,967	0	0	3,967
<b>Total Reserves</b>	<b>67,968</b>	<b>(13,108)</b>	<b>(1,316)</b>	<b>53,544</b>

- 3.94 MTFS Principle 6 is to maintain a minimum general reserve provision of 4% of net revenue expenditure over the period of 2024-29. The projected balance as at 31<sup>st</sup> March 2024 will be 4.2% in line with this principle.
- 3.95 The level of reserves held has been assessed alongside the overall budget proposal.
- 3.96 Over the last couple of years a number of specific reserves were created due to the emerging financial pressures as inflationary pressures began to take hold, this strategy increased our financial resilience as we moved into an unprecedented period of volatility. At this stage £14.424 million of reserves is forecast to be relied upon to support the budget this year.

- 3.97 Schools increased their ring-fenced reserves during 2021-22 and have been able to draw on these this year to meet the additional costs they too have faced. These reserves have now been depleted for some schools reducing their resilience to manage the ongoing cost pressures. Governing Bodies will have to make difficult decisions to realign their budgets and reduce spend to balance their in-year positions.
- 3.98 The financial position of some of our schools has been a concern for several years, but progress continues in strengthening financial management arrangements. The “Team around the School” approach, supportive guidance, additional training and the appropriate use of warning notices, recovery planning and removal of financial delegation have all strengthened financial management at schools causing most concern. This support will again be crucial to support our schools as they manage the increased costs of running their schools. The school reserves are ring fenced but ultimately represent a potential Council risk. It is essential that this compliance work continues to be undertaken to ensure that school budgets are managed in accordance with regulations by Governing Bodies.
- 3.99 In the context of the need to maintain financial stability and flexibility moving forward on the advice of the Section 151 Officer, it is Cabinet’s intention not to make any use of the General Reserve to fund the 2024-25 Budget.
- 3.100 The use of the Councils reserves will continually be reviewed, particularly considering the continued uncertainty arising from the ongoing economic volatility. The reserves position will be monitored carefully as the financial year progresses. Under Section 26 of the 2003 Local Government Act, an appropriate person (S151 Officer) must determine the minimum amount of General Fund Reserve.

### **Impact Assessment**

- 3.101 The Well-being of Future Generations Act (Wales) Act 2015 requires Local Authorities to apply the five ways of working to their financial planning to ensure that short term priorities and administrative process do not overtake longer term interests. The Act requires that the Council takes every reasonable step to meet the wellbeing objectives and act in accordance with the sustainable development principle.
- 3.102 Integrated Impact Assessments have been undertaken for each of the service cost reduction proposals, attached at Appendix I. An impact Assessment for the whole 2024-25 budget has also been completed and will be scrutinised as part of the budget process.

## **4. Resource Implications and Section 151 Officer Opinion**

- 4.1 The Local Government Act 2003 requires an authority’s Section 151 officer to give a formal opinion as to the robustness of the budget estimates and the level of reserves held by the Council. This section of the report provides the Section 151 Officer’s formal opinion.
- 4.2 Under Section 26 of the 2003 Act, it is not considered appropriate for the balance of the Council’s General Fund Reserves to be less than the minimum amount determined by an appropriate person, in this case, the Head of Finance and Section 151 Officer.

- 4.3 The draft budget has been produced within the framework of the draft MTFs. The continued use of scenario planning has ensured that the budget is developed in a prudent and flexible way, highlighting the risk faced by the Council as a result of changes in funding and increasing financial pressures, and offering some choice in how our resources are prioritised and the risk mitigated.
- 4.4 Service Integrated Business Plans ensure that all elements of delivering the service are considered in a holistic way. Statutory obligations, pay and price pressures, income streams, demographic changes and the impact on service demand, new responsibilities and changes in regulation are all considered. Services assess options for service delivery, their workforce and capital requirements and the cost reductions that can be achieved in submitting their calculated budget requirement. The impact and risk associated with their proposals is explained.
- 4.5 The Council's MTFs guides the development of these plans, and the 2024-25 implications are set out in the draft budget and draft 2024-29 Capital Programme. A process of challenge and review undertaken with Cabinet, each Head of Service, and the Corporate Leadership Team provided assurance on the completeness and robustness of the estimates, whilst highlighting the risks associated with its deliverability.
- 4.6 This strategic approach to allocating resources ensures that our financial plans consider the delivery of the Corporate Strategic and Equalities Plan, the transformation programmes we need to deliver and ensures that service improvement and appropriate levels of statutory provision are all included. Revenue and Capital budgets are aligned and ensure that our limited resources are prioritised to achieve maximum effectiveness in securing outcomes.
- 4.7 The significant impact of continued inflation, rising costs and additional service pressures have all added substantial financial pressure to the Council's budget. The funding settlement the Council has received this year is considerably lower than that received in recent years, the cumulative effect of increasing costs and limited additional funding creates an even greater challenge in maintaining financial stability. In order to meet the statutory responsibility to set a balanced budget the proposal includes a further significant level of cost reduction for 2024-25. Against that background, the draft budget continues to include a risk management allocation and the removal of prior years' unachievable savings adds resilience and robustness to our budget plan.
- 4.8 The need to hold an appropriate level of Reserves has been brought to the fore over the last few years and with continued economic uncertainty our reserves remain crucial to our financial stability. The position going forward will require reserves to be maintained at a prudent level. The minimum level of General Fund Reserve remains at 4% of the Net revenue budget. On this basis the level of revenue reserves held, together with the revenue Risk budget in place, is appropriate to deal with known and unknown risks.
- 4.9 The financial position of many of our schools is also being impacted by rising costs and reducing funding in response to both pupil number reductions and poorer funding settlements. Governing Bodies have drawn significantly on their ringfenced reserves to manage their budgets during 2023-24.
- 4.10 The budget plan proposed sees additional funding allocated to schools delegated budgets in line with the increase provided through the Welsh Government settlement

and further Welsh Government grant funding is also planned to support schools, this funding will support the increased energy and pay costs falling on schools, but Governing Bodies like other Council services will have to make changes and cost reductions to fully mitigate their financial pressures. The support provided by the “Team around the School” approach will be vital to assist Governing Bodies in addressing this challenge and it is essential that compliance work continues building on the progress made to date to further reduce the deficit balances held.

- 4.11 Many schools have already acted and are actively managing their budgets annually, but schools that have not strengthened this approach face an even greater challenge. To realign their budgets in this current environment will mean significant reductions across school budgets. The Transforming Education programme will enable the Council to realign limited resources to improve provision. But we have to question whether the pace of change can keep up with the financial challenge. Welsh Government, Estyn, Councils and Governing Bodies must all work in partnership to support the solutions needed for our learners.
- 4.12 The Capital Strategy contained within this report sets out the current investment plans across council assets and the funding arrangements that are in place. The Capital Programme captures the schemes already approved and includes indicative estimates as programmes develop. Rising project costs and increased borrowing rates add pressure on the programme. Maintaining a Capital Strategy that is affordable, prudent and sustainable is supported by a strong governance framework, the approach to rationalise our estate, prioritise investment and seek alternative sources of funding before increasing borrowing. The increase in the target of Capital Receipts generated is a key element.
- 4.13 Any additional schemes are subject to robust business cases and are set in the context of overall affordability regarding our Prudential Indicators. Regular reporting of performance against these indicators confirms that the current and planned programme continues to operate within the limits set. Clearly, this position will be kept under constant review, where the later years of the programme are refined as further information becomes available.
- 4.14 Changes to our MRP policy in recent years provided an opportunity to plan for the future to support key transformational activity across Schools and other Council Services, this remains a key element of our capital financing strategy and will limit the impact on future revenue budgets supporting the council’s financial resilience.
- 4.15 The Council has well established budget monitoring and internal control arrangements and these act as an effective early warning system in identifying potential problems and for managing potential areas of risk. This ongoing regular review highlights problems and risks early so that corrective action can be put in place, and this is supported by a clear virement process which provides some flexibility to adapt expenditure patterns to meet changing needs and objectives.
- 4.16 The Councils financial management arrangements are clearly defined within the Constitution. Senior Leadership Team oversight and quarterly reporting together with Internal Audit reviews and Scrutiny Committee challenge ensures that officers across the council are held accountable for the expenditure headings that they are responsible for. Additional training, delivery of audit recommendations and further development of financial and performance benchmarking data will strengthen these arrangements.

- 4.17 The updated MTFs ensures that the 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.
- 4.18 The Provisional Settlement provides the Council with an additional £6.381 million of funding for 2024-25. This is welcomed and will go some way to help fund the significant pressures we face whilst the proposed increase in Council Tax will help mitigate the position. Wales Fiscal Analysis suggest funding levels will be less generous in the future, the Council must act quickly to tackle the projected budget gap from 2024-25 onwards.
- 4.19 It is widely acknowledged that the Council in its current form is not sustainable. The programme of change to deliver “Sustainable Powys” is critical to ensure that the Council can remain financially stable and provide sustainable services in the long-term. Across Wales, Councils are taking the learning from authorities in England that have faced financial failure. Recognising and accepting the reality of the situation, having honest discussions and being pro-active, innovative and forward-thinking will enable the Council to deliver effective public services for the future. Council will need to be decisive and bold and work in partnership with other partners and our communities to deliver outcomes for Powys Residents.
- 4.20 Taking all the above into account, the Section 151 Officer concludes the estimates used in the budget proposal for 2024-25 are adequately robust but a heightened level of risk remains. Based on the assessment of reserves, the overall level is adequate but remains at the lower end of acceptability given the ongoing economic challenge and the scale of savings required and the financial uncertainty facing the Council over the medium term.

## **5 Legal Implications**

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

## **6 Members' Interests**

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

<b>Recommendation:</b>	<b>Reason for Recommendation:</b>
<p><b>That Cabinet approves in draft the:</b></p> <p><b>1. MTFS for 2024-2029 as set out in Appendix A to the report be agreed in principle.</b></p>	<b>To aid business planning and development of the budget over a five-year period</b>
<b>2. Draft Revenue Budget for 2024-25 with the inclusion of a 7.5% increase in Council Tax in 2024-25 shown in the Financial Resource Model in Appendix B and Table 4 and Table 5 of this report.</b>	<b>Statutory Requirement</b>
<b>3. Fees and Charges Register in Appendices D and E.</b>	<b>To comply with Powys County Council Income Policy</b>
<b>4. Capital Strategy and Capital Programme for 2024-29 shown in Appendix H.</b>	<b>Statutory Requirement</b>
<b>5. Minimum Revenue Provision Statement as set out on Appendix H.</b>	<b>Statutory Requirement</b>
<b>6. Treasury Management Strategy and the Annual Investment Strategy in Appendix H.</b>	<b>Statutory Requirement</b>
<b>7. Authorised borrowing limit for 2024-25 as required under section 3(1) of the Local Government Act 2003 is set at £514 million and the Operational Boundary is set at £499 million as set out in section 3.83 of this report.</b>	<b>Statutory Requirement</b>
<b>8. Prudential Indicators for 2024-25 as set out in section 3.79 to 3.86 of the report and Appendix H.</b>	<b>Statutory Requirement</b>

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

<b>Relevant Local Member(s):</b>	
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<b>Person(s) To Implement Decision:</b>	<b>Chief Executive</b>
<b>Date by When Decision to Be Implemented:</b>	<b>1<sup>st</sup> April 2024</b>

<b>Contact Officer Name:</b>	<b>Tel:</b>	<b>Email:</b>
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Jane Thomas	01597 827789	jane.thomas@powys.gov.uk
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### **Background Papers used to prepare Report:**

Provisional Welsh Government Local Government Settlement 2024-25  
Welsh Government Draft Budget 2024-25 - A Budget to Protect the Services which Matter Most to You December 2023  
WLGW Welsh Government Draft Budget and Provisional LGF Settlement 2024-25  
Office for Budget Responsibility Economic and Fiscal Outlook November 2023  
The medium-term fiscal outlook for local government in Wales – Wales Fiscal Analysis Report for Society of Welsh Treasurers September 2023

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