Powys County Council's
Medium Term Financial Strategy

2024 to 2029

Contents

		Page
1.	**Introduction**	
1.1	Purpose	3
1.2	Overview	3
1.3	Approach	4
1.4	Principles	5
2.	**Key Drivers**	
2.1	Council Priorities	6
2.2	Key Demands	7
2.3	Economic and Fiscal Outlook	9
2.4	Local Context	15
3.	**Medium Term Financial Plan**	
3.1	Five Year Projections	17
3.2	Cost Assumptions in the FRM	17
3.3	Funding and other Support	20
4.	**Risk and Sensitivity Analysis**	
4.1	Sensitivity Analysis	25
4.2	Funding the Uncertainty	27
4.3	Risk Management Framework	28
4.4	Key Risks	29
5.	**Resilience**	
5.1	Financial Resilience	30

1. Introduction

1.1 Purpose

The Medium-Term Financial Strategy (MTFS) sets out the financial strategy for Powys County Council for the period 2024 to 2029. It has been developed as part of the overall strategic planning process and aligned with the Council's Corporate and Strategic Equality 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 2024/25, and indicative budgets for the following 4 years to March 2029. 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.

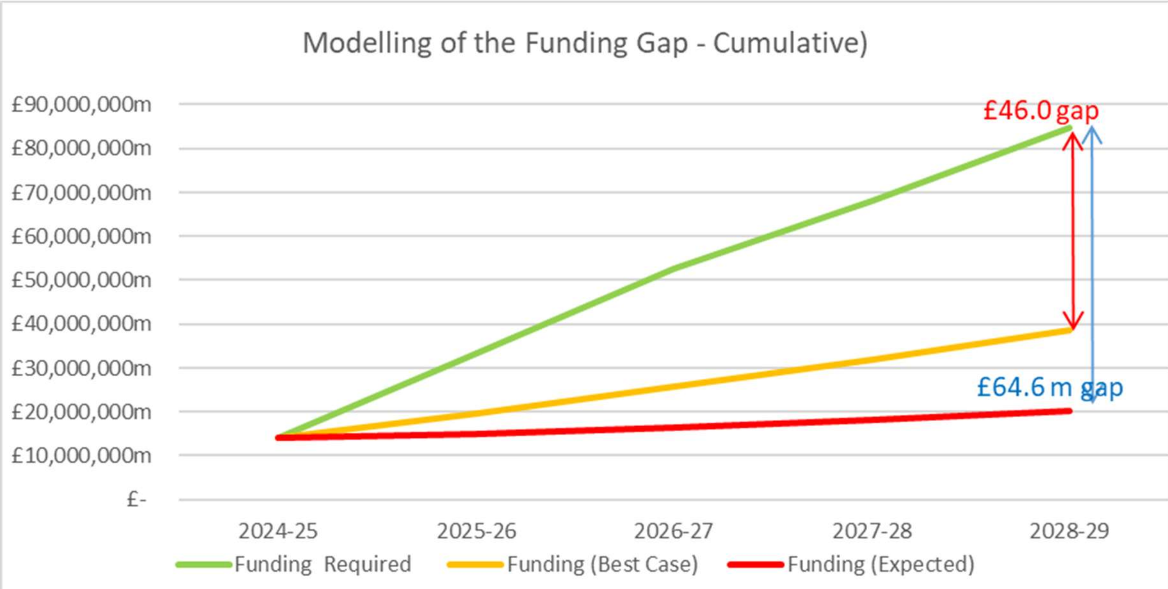
1.2 Overview

Over the last decade the Council has faced significant challenges, years of austerity, the implications of Brexit, and more recently the Covid-19 pandemic, wars in Ukraine and the Middle East, persistently high inflation and the national economic situation. These challenges have created significant financial pressures, albeit partially supported by positive Welsh Government (WG) grants and settlements. For 2023-24 an 8.7% 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 2024.

The receipt of the provisional local government funding settlement for 2024-25 was consistent with the indicative 3.1% allocation indicated by Welsh Government back in March 2023. However, data changes confirmed in the formula sees Powys receive a 2.8% increase in funding for 2024-25, although an increase of £6.381m this falls well short of the increase in costs the Council is experiencing as inflation and demand for services increases. The funding settlement has now been factored into our budget model and the draft budget proposed provides a balanced budget for 2024/25. As 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. Wales Fiscal Analysis (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. On this basis our modelling is now predicated on funding scenarios that look at flat cash or even negative settlements of -2%.

On this basis the revised budget gap to 2029 is £64.6 million. 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 and Strategic Equality 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 and Strategic Equality 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 strive to meet its statutory obligations and to demonstrate how its budget supports the Corporate and Strategic Equality 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 assets will be based on an assessment of the contribution the asset makes, the impact of holding the assets on the revenue budget and the capital programme.

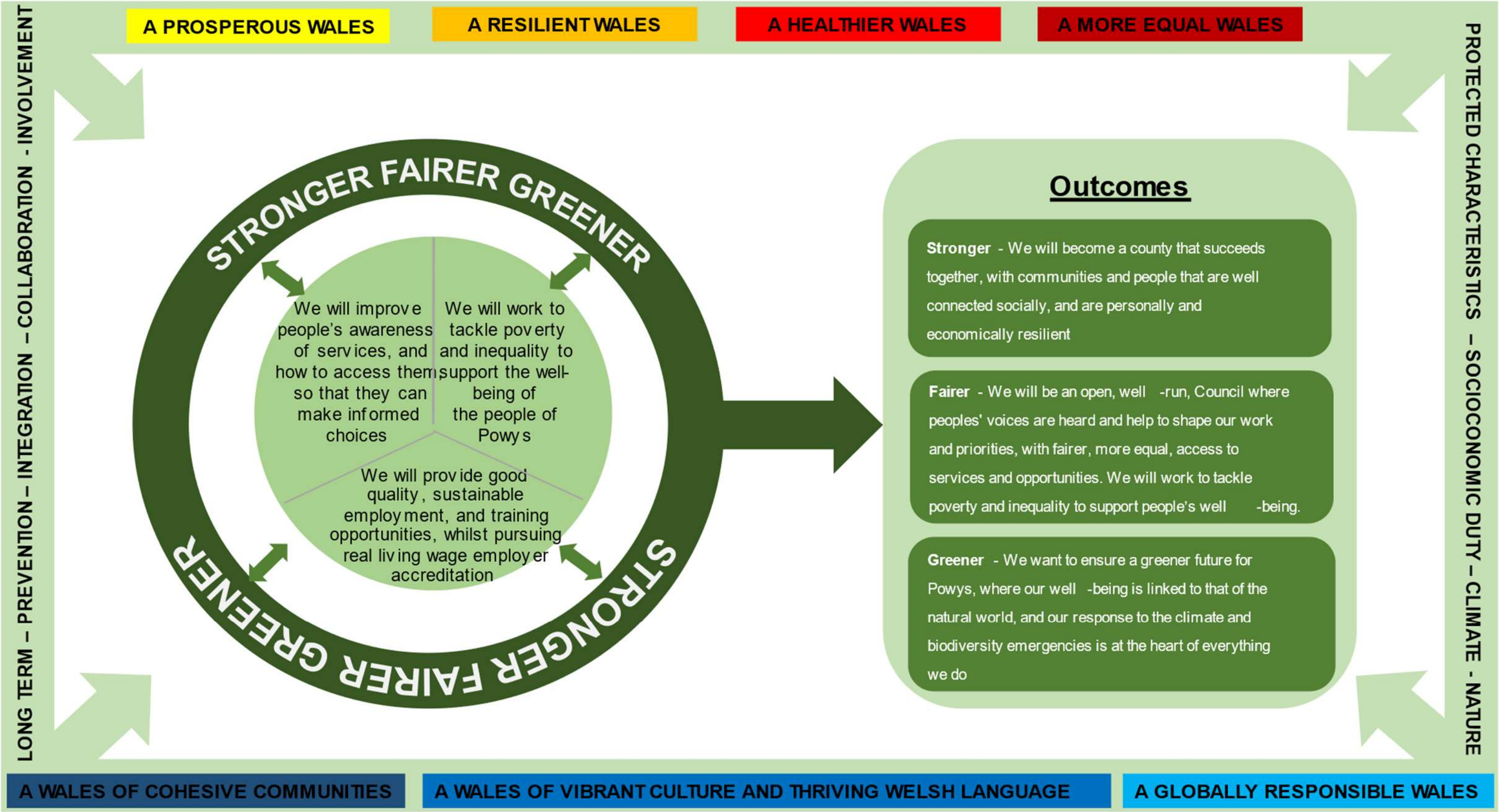
10. Budgets will be managed by Directors and members of SLT in accordance with the Council's Financial Procedure Rules, flexibility through the virement process is fundamental to allow this.

2. Key Drivers

2.1 Council Priorities

The Councils' administration ambitious five-year plan and 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 social housing properties through the capital programme, as well as buy and bring back into use empty properties 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 - 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 – Poverty statistics - 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% 22,162 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 it 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.

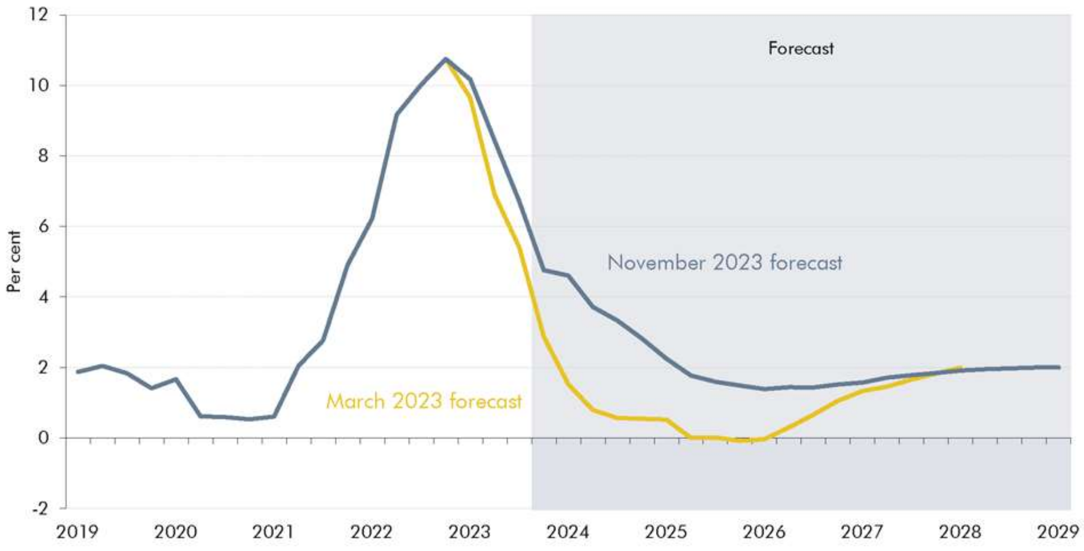
Climate Change – The pledge to address the Climate Change emergency and reduce carbon emissions to zero by 2030. This will require significant capital investment, alongside a change in key polices and procurement. Activities include building sustainable homes, greater active travel, Electric Vehicle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

2.3 Economic and Fiscal Outlook

The current economic context remains challenging. On 22nd November 2023 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.

The economy has proved to be more resilient to the shocks of the pandemic and energy crisis than anticipated. By the middle of this year, the level of real GDP stood nearly 2 per cent above its pre-pandemic level and around 3 per cent above the OBR’s March forecast. But it is now expected that the economy will grow more slowly over the forecast period, leaving the level of real GDP only ½ a per cent higher in the medium term than in the March forecast. Inflation is expected to be more persistent and domestically fuelled than previously thought, falling below 5 per cent by the end of this year but not returning to its 2 per cent target until the first half of 2025, more than a year later than predicted in March. Markets now expect interest rates will need to remain higher for longer to bring inflation under control. Despite the more challenging outlook for the real economy, higher inflation leaves nominal GDP nearly 5½ per cent higher by the start of 2028 than forecasted in March.

Figure 3 - CPI Inflation



Source: ONS, OBR

More persistent, domestically driven inflation boosts nominal tax revenues compared to March. But it also raises the cost of welfare benefits, and higher interest rates raise the cost of servicing the Government's debts. It is mainly due to the Chancellor's decision to leave departmental spending broadly unchanged that higher inflation and other forecast changes reduce borrowing by £27 billion in 2027-28 compared to the OBR's March forecast. The Chancellor has used this windfall on cuts in National Insurance Contributions, permanent up-front tax write-offs for business investment, and a package of welfare reforms, which together provide a modest boost to output of 0.3 per cent in 5 years. He still meets his target to get debt falling as a share of GDP in 5 years' time by an enhanced margin of £13 billion, but mainly thanks to the rolling nature of the rule giving him an extra year to get there. And while personal and business tax cuts reduce the tax burden by ½ a percentage point, it still rises in each of the next 5 years to a post-war high of 38 per cent of GDP.

UK Government's Autumn Statement : Implications for Wales

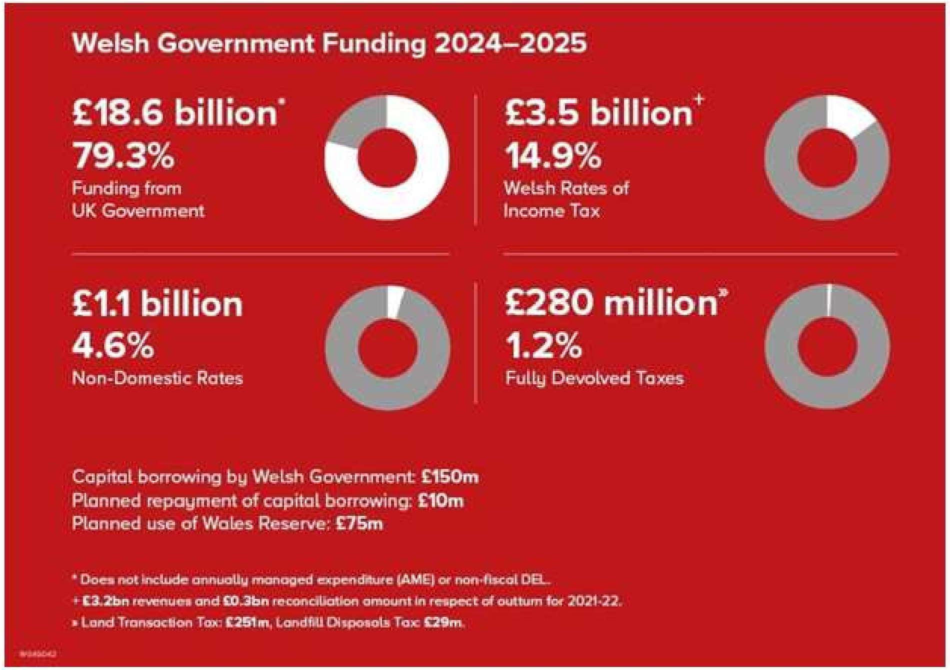
The Welsh Government was provided with expenditure limits for 2022-23 to 2024-25 following the UK Government's spending review in Autumn 2021. These limits were reflected in the Welsh Government's Final Budget for 2022-23 and 2023-24 alongside indicative spending plans for 2024-25, which were published in March 2022 and March 2023 respectively.

The UK Government's Spring Budget contained an additional £178m across 2023-24 and 2024-25 for the Welsh Government. This included an additional £139.4m in resource and £0.7m in capital in 2024-25.

The UK Government's Autumn Statement contained an additional £305m across 2023-24 and 2024-25 for the Welsh Government. This included an additional £167m in resource and £5.8m in capital in 2024-25.

The limit for the Welsh Government Resource DEL is now £19.458bn for 2024-25, before block grant adjustments.

Figure 4 - The infographic below provides details of funding received by the Welsh Government for 2024-25.



Welsh Government's Budget and Outlook

The Welsh Government's draft budget is the final year of the current multi-year budget setting exercise and builds on the work undertaken as part of the 2022 Welsh Spending Review and Budget 2023-24. The multi-year settlement provided was front loaded, meaning that growth in budgets in the early part of this three-year period was greater than in this year. Welsh Government will be investing more than £22bn in Wales through their budget, and while the draft budget does not feature significant additional new investment in new activity, it shows a continued commitment and clear vision to enable public service partners to deliver the services Wales needs most.

However, the Welsh Government's settlement for 2024-25 is worth up to £1.3bn less in real terms than when it was set at the Spending Review and their settlement is not sufficient to respond to the extreme pressures experienced by public services, caused by persistently high inflation, unfunded pay settlements, increased energy costs and rising demand. The Minister for Finance and Local Government defines this year's budget setting as the "most difficult of this spending review period" and states that "incredibly difficult decisions" have had to be made "the starkest and most painful since devolution". Spending plans have been reshaped according to the priorities agreed by Welsh Ministers for 2024-25. These priorities include protecting core frontline public services, as far as possible; prioritising jobs, wherever possible, delivering the greatest benefit to households which are hardest hit and refocusing funding away from non-devolved areas. Priority areas for funding are frontline NHS services and the core local government settlement, which funds schools, social services, and social care.

Welsh Government continue to do all that they can to support the Welsh economy. A Non-Domestic Rates relief package including a fully funded permanent relief scheme, will benefit every ratepayer. A new capital fund will also support private sector investment.

The Local Government Revenue Settlement

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 (WG) in RSG and NDR to spend on delivering key services, an increase of 3.1%. £1.3m is provided through the Revenue Support Grant to ensure that no authority has an increase in settlement of below 2%.

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.

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.

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.

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.

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.

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.

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.

Education grants will come directly to local authorities rather than the Education consortia. Many of these grants will be consolidated into 4 new grants:

- Local Authority Education Grant (Schools Standards) £160m
- Local Authority Education Grant (Equity) £155m
- Local Authority Education Grant (Reform) £54m
- Local Authority Education Grant (Cymraeg) £10m

Other significant reductions in 2024-25 include:

- Retail, Leisure and Hospitality Rates Relief reduces from £130m to £79m
- Social Care Workforce Grant reduces from £45m to £35m
- Communities for Work+ reduces from £27m to £17m
- Bus Emergency Scheme reduces from £42m to £39m

There are also increases in several grant schemes, some of which include:

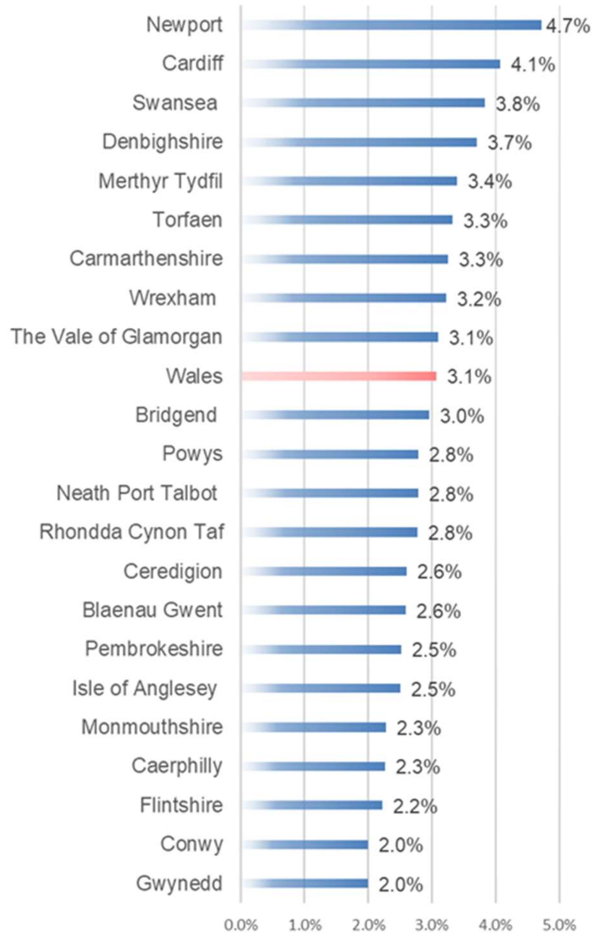
- Arfor 2 increases from £4m to £7m
- Substance Misuse Action Fund increases from £39m to £41m
- Universal Free Primary School Meals increases from £63m to £94m

Overall Capital Funding (both General Capital Financing and Capital Grants) increases from £946m to £962m on a like-for-like basis. The £16m represents a 1.7% increase. General Capital Funding (GCF) has remained the same at £180m after being increased by £30m last year. There is a sizable planned increased in the Band B - Sustainable Communities for Learning programme. The Social Housing Grant (SHG) allocation which supports the construction of new council homes is set to double to just over £59m across Wales. There are significant changes to a number of housing grants within the Climate Change portfolio. £20 million capital grant in each year to enable authorities to respond to our joint priority of decarbonisation, to continue the focus on contributing to the Net Zero Wales plan.

The Graph at Figure 5 below shows changes to the AEF 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 graph confirms that funding in Powys has increased by 2.8% after adjusting for transfers, this equates to an additional £6.381 million for next year.

Figure 5



As this is the last year of the current Spending Review period there is no forward indication of settlements.

2.4 Local Context

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.

Uncertainty around funding continues and in order to manage this uncertainty revised modelling continues to be based on a number of scenarios with a 0% and -2% uplift as well as the 2.8% provided as indicative funding for 2025-26.

On the current modelling, to deliver a balanced annual budget between April 2024 and 2029 the Council will need to reduce its spending by more than £64.6 million in addition to the assumption to increase council tax by 7.5% in 2024/25 and 5% for each year thereon. This will be achieved through transformational change and cost efficiencies but reductions in some services offered will also be inevitable.

Since 2012, £124.9 million has been achieved through reduced spending 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. 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 six years alone, the largest budgets in the Council increased by £35.3 million as seen at Figure 6 due to demographic demand and inflationary pressures.

Figure 6: Budget Changes

	Net Budget - £			
	2018-19	**2023-24**	**Change**	**%**
Childrens	18,842,414	29,482,364	10,639,950	56.47%
Adults	64,038,521	80,663,811	16,625,290	25.96%
Education	93,356,950	101,431,777	8,074,827	8.65%
	176,237,885	**211,577,952**	**35,340,067**	**20.05%**

3. Medium Term Financial Plan

3.1 Five Year Projections

Based on the modelling assumptions (settlement +2.8% in 2024-25 reducing to -2% for the following four years), the five-year financial projection is summarised at Figure 7, with the detailed Financial Resource Model (FRM) shown at Appendix A.

Figure 7: Five Year Summary

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Cumulative £'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	-
GAP - each year	**14,081**	**19,312**	**19,276**	**15,446**	**16,665**	**-**
Additional Funding						
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	
Net Gap - Each Year	**0**	**18,379**	**17,950**	**13,713**	**14,510**	**64,552**

3.2 The FRM and Cost Assumptions

Figure 8 provides the summary position by service for 2024-25.

Figure 8 2024-25 Service Budgets

	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%
Total	**326,620**	**4,639**	**1,560**	**695**	**13,887**	**(10,653)**	**353**	**3,600**	**340,701**	**14,081**	**4.3%**

Employee Costs –The FRM in 2024/25 pay assumptions are that NJC and Teachers will increase by 4% in 2024-25 and 2025-26, 3% in 2026/27 and 2% then on. The service budgets holding £4.6 million in 2024/25 for pay award.

Pension Costs – Powys Pension Fund's actuarial review was finalised in March 2023 which saw a decrease in employer contribution rates for the Council phased in over 3 years. The change in contribution rates is reflected in the Councils Budget Plan with a saving of £0.9 million expected over the next two financial years. The Teacher's Pension Scheme (TPS) is subject to its actuarial review which will take effect from 1st April 2024 and implemented in September 2024. Our planning assumes that any increase in employer contribution rates for Teaching staff will be fully funded by Welsh Government, as was the case at the last review. However, due to the significant impact any change would have on Powys Schools budgets we will note this pressure in our plan, currently estimated at a full year cost of £3 million.

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 – 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 3.9% and is expected that inflation will remain higher for longer, taking until the second quarter of 2025 to return to the 2 per cent target, more than a year later than forecast in March. 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.

4% inflation has been factored in across all services for 2024/25 year, reducing to 3% in 2025/26 and held at 2% then on.

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 4.0% in 2024/25 and is expected to fall slightly in the following years, 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 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. 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. For Powys, the Councils budget includes an estimate of £10,171,354 for 2024-25, an increase of £1,090,344 (12.0%) from that provided last year. This amount is funded in part through the local government settlement with the remainder being met from Council Tax.

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 £0.7 million per annum assumed 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 £27k factored in next year. Pupils numbers are expected to fall over the life of the MTFS.

Council Tax Reduction Scheme - This budget reflects the payment of Council Tax Support to eligible recipients. At over £12.0 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.

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.

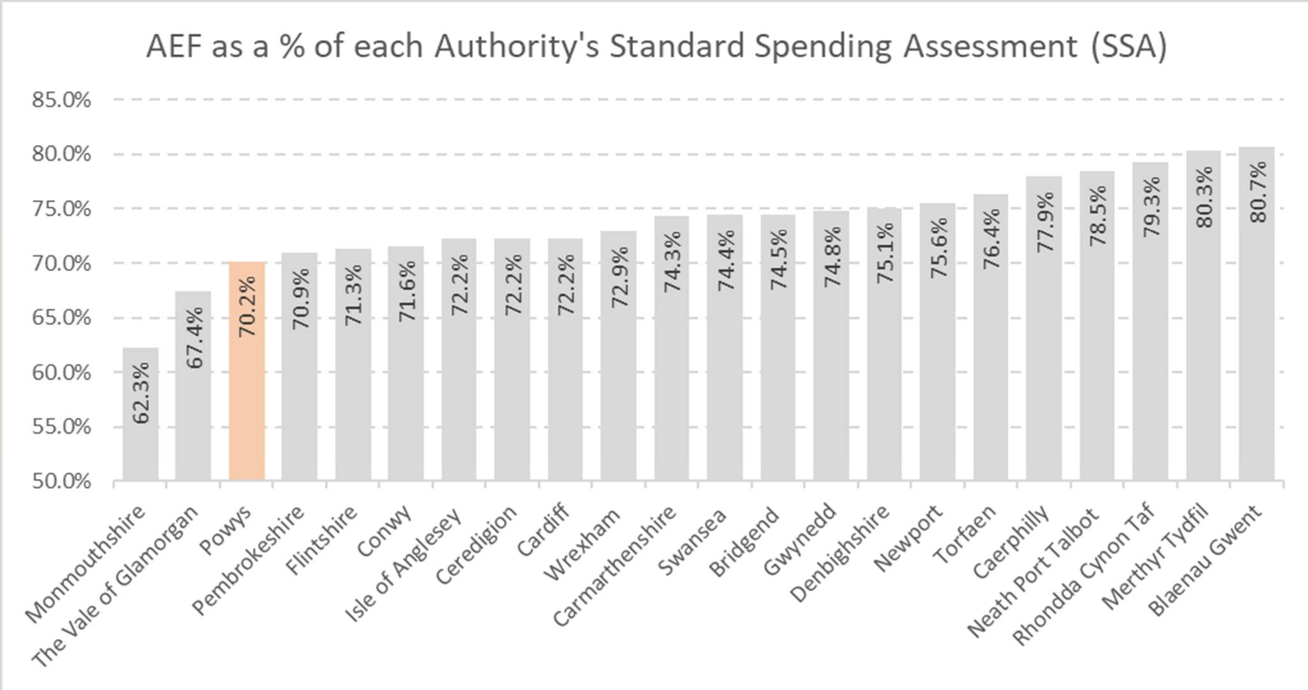
The financing of the net budget comes from the Welsh Government settlement and gross Council Tax income. Figure 9 below summarises the current assumptions.

Figure 9

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	Cumulative £'000
Council Tax increase (+7.5% and tax base increase, +5% then on)	-7,806	-5,632	-5,931	-6,246	-6,577	-32,191
Settlement (2.8%, -2% then on)	-6,275	4,699	4,605	4,513	4,422	11,963
Total Funding	**-14,081**	**-933**	**-1,326**	**-1,733**	**-2,154**	**-20,228**

Council Tax - Council Tax represents around 31% 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 10: 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 of 7.5% for 2024/25 and 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 11 indicates the additional permanent funding from Council Tax increases ranging from 1% to 10%.

Figure 11: Council Tax Funding

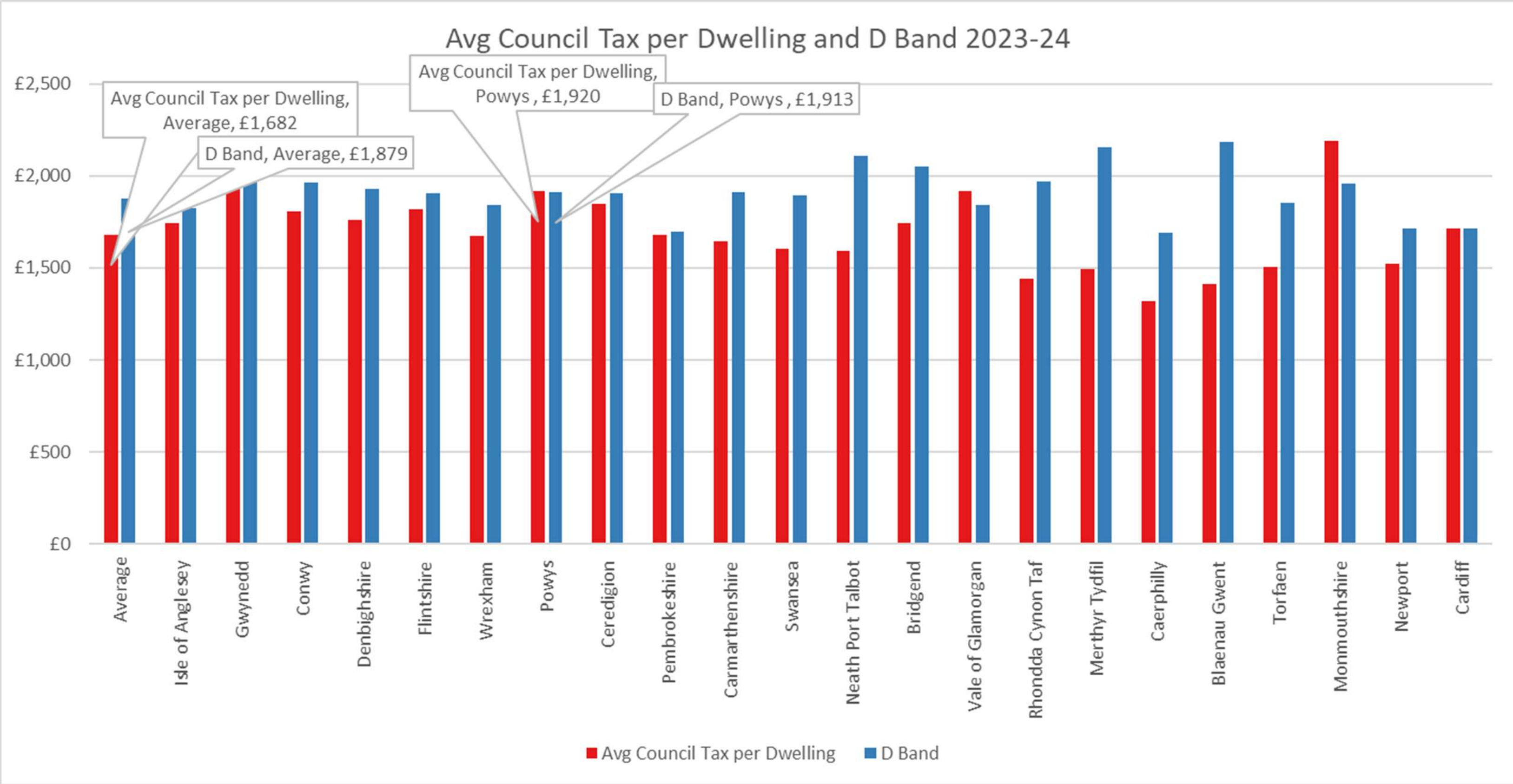
2024/25							
% Change Council Tax	1.00%	2.00%	3.00%	4.00%	5.00%	7.00%	10.00%
£'000	£980	£1,959	£2,939	£3,918	£4,898	£6,857	£9,796
Council Tax Less CTRS	£872	£1,744	£2,615	£3,487	£4,359	£6,103	£8,718

Council Tax income comes from residents but not all residents pay full Council Tax. Around 47% of Powys' 66,500 households pay the full amount, while just over 53% 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 2023-24 was the 3rd highest in Wales, this is particularly sensitive in a county with one of the lowest average wage levels in Wales. Figure 12 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).

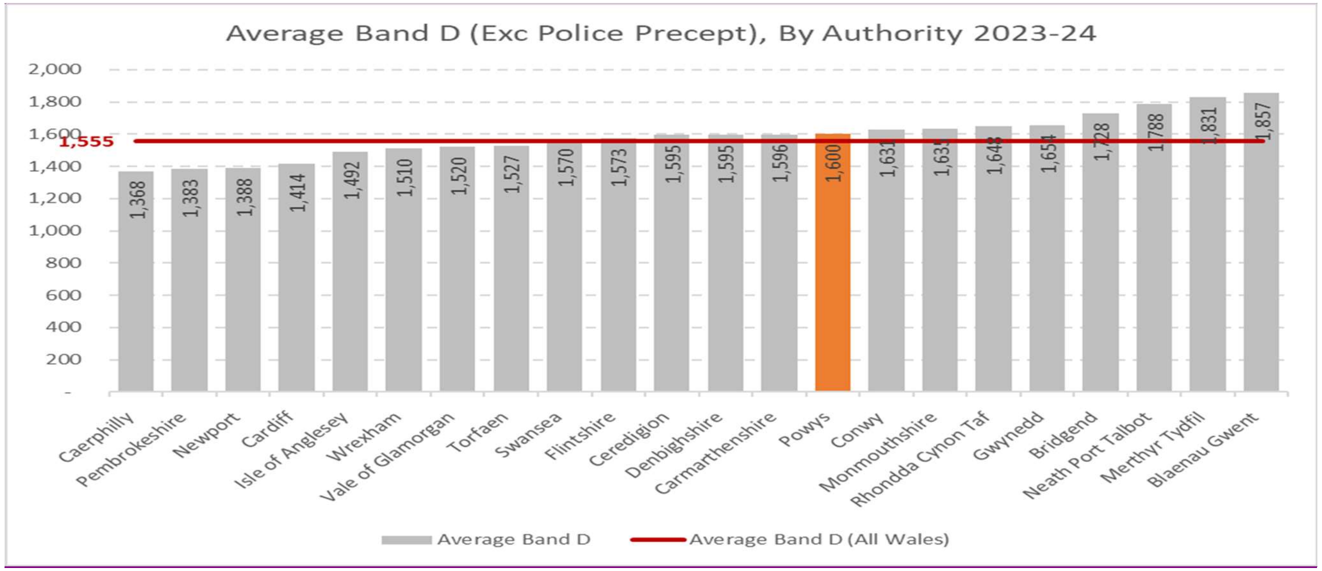
Figure 12: Average Council Tax per Dwelling



For 2023-24, the average annual Council tax bill for a Band D property in Powys was £1,913 (including community council and police precept). This is above the Wales average for Band D properties of £1,879.

Figure 13 shows the Band D Council Tax level for each of the local authorities in Wales (excluding all precepts)

Figure 13: Average Band D by Authority



Council Tax collection rate for 2022-23 was 97.20% (0.1% decrease on previous year) which compares with an average of 96.1% for all unitary authorities in Wales. The highest collection rate in Wales for 2022/23 was 97.8%

Council Tax premiums are applied to periodically occupied and empty properties. Following a Cabinet decision in February 2022 the premium applied to Properties that are periodically occupied 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 approved an increase to the long-term empty premium from 50% to 100% effective from 1st April 2023.

Fees and Charges - Income from fees and charges makes a significant contribution (£77 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.

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.

Strategy to Bridge the Gap : Sustainable Powys

It is becoming 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.

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.

We recognise the challenges 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.

"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.

In line with Stronger Fairer Greener, Sustainable Powys key principles are:-

- **Outcomes and transformation**, not just modifying services
- **Engagement**: engaging early with people in agreeing, designing and delivering outcomes
- Addressing the fundamental question: **why do we do what we do?**
- Having a strategic **whole county** view, not just the Council
- **Innovation**: being open minded and seeking innovative solutions, using all the expertise available
- Using **evidence** - if we aren't getting results, we should change
- It's a **continual process** to meet existing and long-term needs sustainably
- Delivering **outcomes at lower or no costs**

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).

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.

In addition the following strategies will also apply to deliver cost reductions: -

- Improved efficiency and a "Right First Time" ethos.
- Identification of investment opportunities and income.
- 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.

4. Risk and Sensitivity Analysis

4.1 <u>Sensitivity Analysis</u>

The MTFS is prepared using the best information at this point in time, but as a working document will continue to be updated through until the budget is agreed in February 2024. 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 14.

Figure 14

Modelling and impact of changes - £	**1%**	**2%**	**3%**
Council Tax (before CTRS)	- 979,558	- 1,959,116	- 2,938,673
WG Settlement	- 2,286,646	- 4,573,292	- 6,859,938
Pay (Teachers)	599,439	1,198,877	1,798,316
Pay (NJC)	1,137,557	2,275,114	3,412,671
Non-Pay (excluding utilities)	1,246,221	2,492,441	3,738,662

Figure 15 provides the most recent modelling based on the known funding next year of 3.1% and -2% the following year, with the future funding expectations from 2% to a worst-case scenario of -2%. The cumulative gap is shown between £28.0 million and £64.6 million.

Figure 15

	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	
GAP - each year	**14,081**	**19,312**	**19,276**	**15,446**	**16,665**	

Additional Funding						
Council Tax increase - 7.5% yr 1, 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	
Net Gap / (surplus)	**0**	**8,981**	**8,741**	**4,687**	**5,666**	**28,074**
Additional Funding						
Council Tax increase - 7.5% yr 1, 5% then on	-7,806	-5,632	-5,931	-6,246	-6,577	
Settlement (2.8%, 0% then on)	-6,275	0	0	0	0	
Net Gap / (surplus)	**0**	**13,680**	**13,345**	**9,200**	**10,088**	**46,313**
Additional Funding						
Council Tax increase - 7.5% yr 1, 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	
Net Gap / (surplus)	**0**	**18,379**	**17,950**	**13,713**	**14,510**	**64,552**

In previous years' service demography risk has been supported through the risk budget and 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 eighteen 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 54 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.

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.

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. Reserve use to support initiatives to deliver recurrent savings may be needed to smooth over the transition process.

Figure 16: Usable Reserves

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
Total Useable Reserves	**57,706**	**(8,033)**	**122**	**49,795**
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
Total Reserves	**67,968**	**(13,108)**	**(1,316)**	**53,544**

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 and Strategic Equality 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

a. 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 2024/25 is significant at £10.7 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 quarterly. 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, increased numbers of Unaccompanied Asylum Seeking Children, Homelessness 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.

b. 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.

c. 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

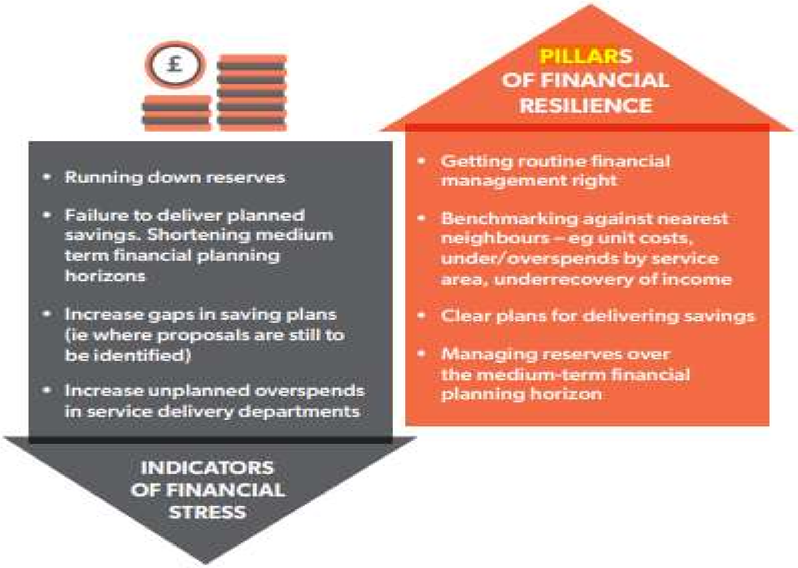
The Council continues to put financial resilience at the forefront of its financial activities and draws upon the support from Audit Wales who undertake regular pan Wales assessments on councils' financial sustainability.

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 17) as a framework for improvement within its Finance Transformation plan. Symptoms of stress and pillars of resilience are shown in the diagram below:

Figure 17 CIPFA Pillars of Financial Resilience



A Financial Resilience snapshot has been developed which provides a high-level overview of the financial health of the Council. Whilst the snapshot presents no immediate cause for concern the ongoing challenges linked to the medium term are clear. Other points of note within the snapshot are summarised below:

- Revenue Outturn shows a year-on-year underspend that increased through the Covid period, it was supported by significant savings achieved each year. In recent years we have achieved less than 80% of our savings target each year, with some being written off and others rolled forward, our aspiration is to improve delivery to over 90% of our savings target in this and future years.
- A consequence of the underspends has been the ability to shore up useable reserves in readiness for specific pressures likely to materialise in the coming years, which may be needed to help support the MTFS and delivering balanced budgets. Over the medium term, it will be key that we understand the one-off nature of these resources and carefully prioritise them to ensure that, in line with their intended purpose, they are either spent on areas of most impact, or retained as a buffer against areas of highest risk.
- The snapshot highlights the importance of external income from grants to customer and client income through fees and charges. These income streams increased through the Covid period and have now dropped to pre Covid levels, the volatility of these income streams pose a risk to the council and its financial planning. Fees and charges are susceptible to external factors, whilst for grants,

there is a risk of real term reductions of cost against funding uplifts, grants ceasing and planning challenges. It is critical that these income streams and the risks associated with them are managed as proactively as possible - at best to help address the budget gap, at worst to avoid adding to it.

- Capital spend remains consistent year on year, and this years forecast is likely to reduce as services review their plans and reprofile budgets. This highlights the need to undertake robust and realistic assessment of delivery capabilities as part of rolling the programme forward and profiling expenditure. The outturn forecast is likely to mean lower than planned borrowing costs with a knock on effect in future years.
- The benchmarking comparisons show how Powys compares against other Welsh authorities, whilst our useable reserves have increased, the comparators show that we are in the bottom quartile of the level of reserve against net budget.

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.