Powys County Council's
Medium Term Financial Strategy

2025 to 2030

Contents

1. Introduction

1.1 Purpose

The Medium-Term Financial Strategy (MTFS) sets out the financial strategy for Powys County Council for the period 2025 to 2030. It has been developed as part of the overall strategic planning process and aligned with the Council's Corporate and Strategic Equality Plan Collectively these plans ensure that we deliver our priorities to build a Stronger, Fairer, Greener future for Powys. The MTFS 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 2025/26, and indicative budgets for the following 4 years to March 2030. 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

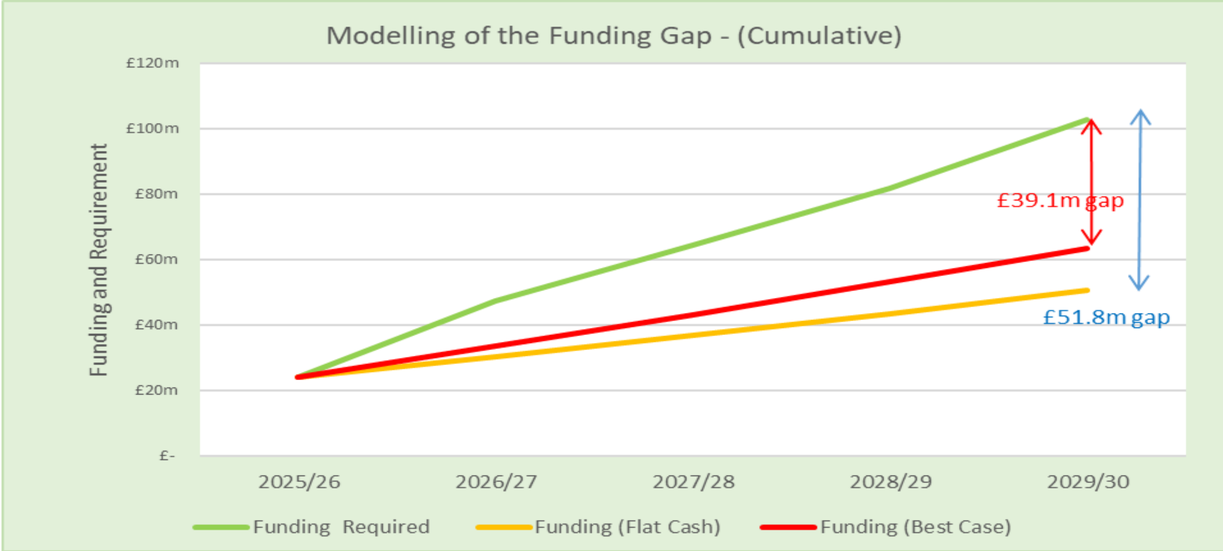
It is more than a decade that the Council has been facing significant financial challenges, with years of austerity, the implications of Brexit, and more recently the challenges from Covid-19 pandemic, wars in Ukraine and the Middle East, persistently high inflation and the national economic situation. These challenges have created significant financial pressures each year, albeit partially supported by positive Welsh Government (WG) grants and settlements. For 2024-25 a 3.1% increase was given to Powys covering the cost of some pressures, pay inflation, contract and provider inflation including funding the real living wage for Social Care providers and demographic increases resulting in care need pressures. But the ever-increasing costs and continued rising inflation means this increase was not sufficient to fund the demands, particularly in Social Care.

The receipt of the provisional Local Government funding settlement for 2025-26 of 3.3% was consistent with the revised expectations projected in the latter months of 2024. The Council was aware that data changes confirmed in the formula would see Powys receive a below average increase in funding for 2025-26, with an increase of £7.9 million 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 2025/26. With a new Labour Government at the helm a one-year spending review and settlement has been published on 30th October, with indications that a longer term allocations will be available next year, this will assist us in our longer term planning. The spending increases outlined in the budget are front-loaded, beyond 2025-26, departmental day-to-day spending growth falls back to a much more modest 1.3% per year, these assumptions have been used as Indications of future year increases to our settlement.

As ever, we continue to draw upon the work undertaken by Wales Fiscal Analysis (WFA), who are 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 suggests that despite the large increase to the Welsh Government's settlement in 2024-25 and 2025-26 announced at the UK's Autumn Budget, the additional funding doesn't appear to have left enough to avoid some real terms cuts in some spending areas. They state that the *"budget provided something of a fiscal reckoning. It was always likely that public spending and taxes would have to increase – given the state of public services – and the budget delivered an historic increase in the planned size of the UK state*". The UK government has pencilled in much tighter spending plans beyond 2025-26, which, if they are to be believed, would imply a difficult Spending Review to be published in the summer. After this year's 'big' budget, next year's budget round promises to be more difficult, and might feel like a return to austerity for some public services.

On this basis the revised budget gap to 2030 is £39.1 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.

The adoption of the Sustainable Powys framework outlines the programme principles together with the place-based planning areas and principles which will be used to plan future services.

To bring together Service Plans and the resourcing demands, the use of Integrated Business Planning (IBP) continues 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 Integrated Business Plan 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**:**

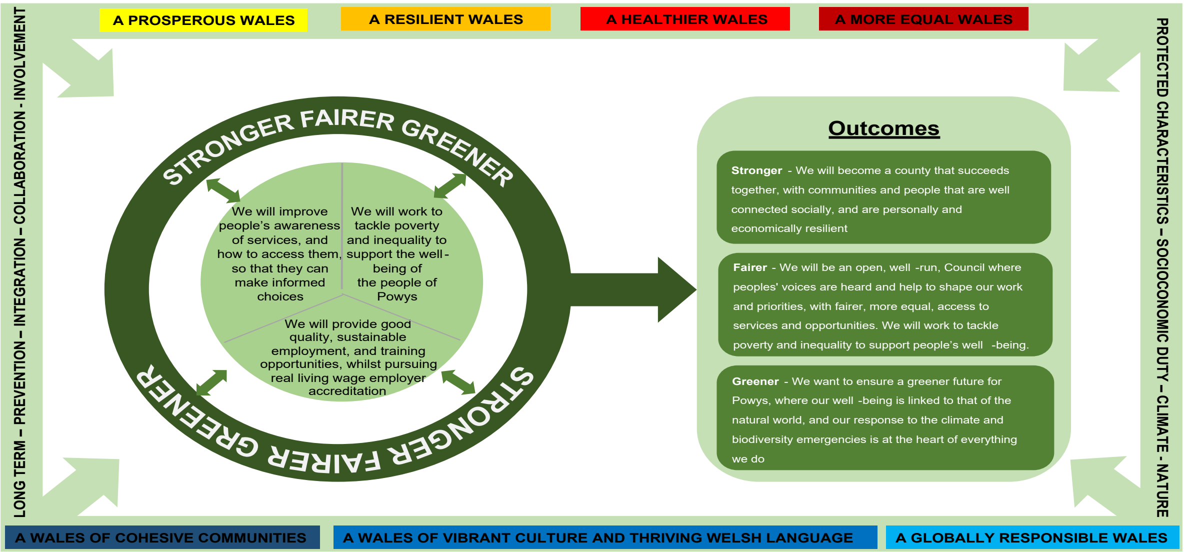
1. The Council will strive to meet its statutory obligations and to demonstrate how its budget supports the Corporate and Strategic Equality Plan.
2. The Council's financial control system will be sufficiently robust to support the delivery of financial plans and mitigate corporate risks.
3. All Council 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 and the Housing Revenue Account) 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

Our Goal is to build a Stronger, Fairer, Greener future, but to achieve our goals Powys must be financially, socially and environmentally sustainable. The priorities are set out in Figure 2, reflected in our three well-being objectives:

Figure 2



The priorities align to the 5 ways of working and the 7 national Well-being goals of The Well-being of Future Generations (Wales) Act 2015, meeting statutory requirements such as the need to carry out sustainable development. In finding sustainable solutions for service delivery the Council's activities broadly align to any 1 of the following requirements:

- Redesigning services to deliver them more efficiently, effectively or in an alternative manner.
- Identifying key delivery partnerships or outsourcing opportunities
- Contributing positively to support Climate Change
- Realising opportunities to stop delivering services because requirements or priorities have changed, allowing the planned release of resources.
- Realising 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 Sustainable Powys

The Council of the past is not financially sustainable. We are facing a critical situation because of national and international issues outside of our control. The Council has faced years of austerity, and we are a leaner organisation, services are at risk, and we have to change or what we have now will no longer be here for our future generations. 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. “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. Our mission and what we must do to change is guided by Sustainable Powys principles which were approved by Cabinet in July 2024. Our key imperatives are:

- We must fundamentally change the way we deliver services, failure to do so risks services closing one by one and we’ll be left with nothing.
- If we continue as we are, local facilities will become run down and will have to close.
- To balance our budget, we must reduce cost or increase our income through fees and charges and council tax.
- Working more closely with our partners, communities doing more for themselves, and drawing on the private and voluntary sectors to support this.
- We must ensure there are services available for future generations

Service provision will change, and community delivery is at the forefront of our thinking. We use a locality model, dividing the County into 13 localities that fit into 5 larger core areas based on our five main towns. This way we can plan services more efficiently together.’

2.3 Key Demands

Education – Our vision for children and young people in Powys is that they will experience a high quality, inspiring education to help develop the knowledge, skills and attributes that will enable them to become healthy, personally fulfilled, economically productive, socially responsible and globally engaged citizens of 21st century Wales. Educational standards are our priority with learner attainment at its core. To support our vision we will continue our investment in schools transformation programme as part of the WG Sustainable Communities For Learning 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. Community first and statutory services as a last resort. 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 'Everyone In' policy 1s 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. In 2024, full time workers in Powys earned £675 a week, compared to a Welsh average of £684 and UK £728.

Delivering Services Rurally – as the largest county in Wales, with the smallest population density and limited transport infrastructure creates challenges in terms of staffing shortages and ability to attract contractors/ providers to deliver services locally. Travel time to service users etc are a financial burden and limits productivity levels and we have to provide services like schools to service the geography, but find our unit costs are high compared with Welsh averages.

Real Living Wage (RLW) –. The Council is a Real Living Wage (RLW) Employer and an advocate of RLW with a wider aspiration to become accredited for both its employees and those who provide services to the Council. We continue to support the Care Sector and fund RLW for their staff, as part of the Welsh Government standard, to implement this across providers and contracts may 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 net 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.

2.4 Economic and Fiscal Outlook

The current economic context remains challenging. On 30th October 2024 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.

Against a broadly unchanged economic and fiscal backdrop since March, the Government's Budget delivers a large, sustained increase in spending, taxation, and borrowing. Budget policies increase spending by almost £70 billion (a little over 2 per cent of GDP) a year over the next five years, of which two-thirds goes on current and one-third on capital spending.

Half of the increase in spending is funded through an increase in taxes, mainly on employer payrolls, on assets, and through greater tax compliance. These raise £36 billion (just over 1 per cent of GDP) a year in additional revenue and push the tax take to a historic high of 38 per cent of GDP by 2029-30. The other half of the increase in spending is funded by a £32 billion (1 per cent of GDP) a year increase in borrowing, one of the largest fiscal loosening of any fiscal event in recent decades.

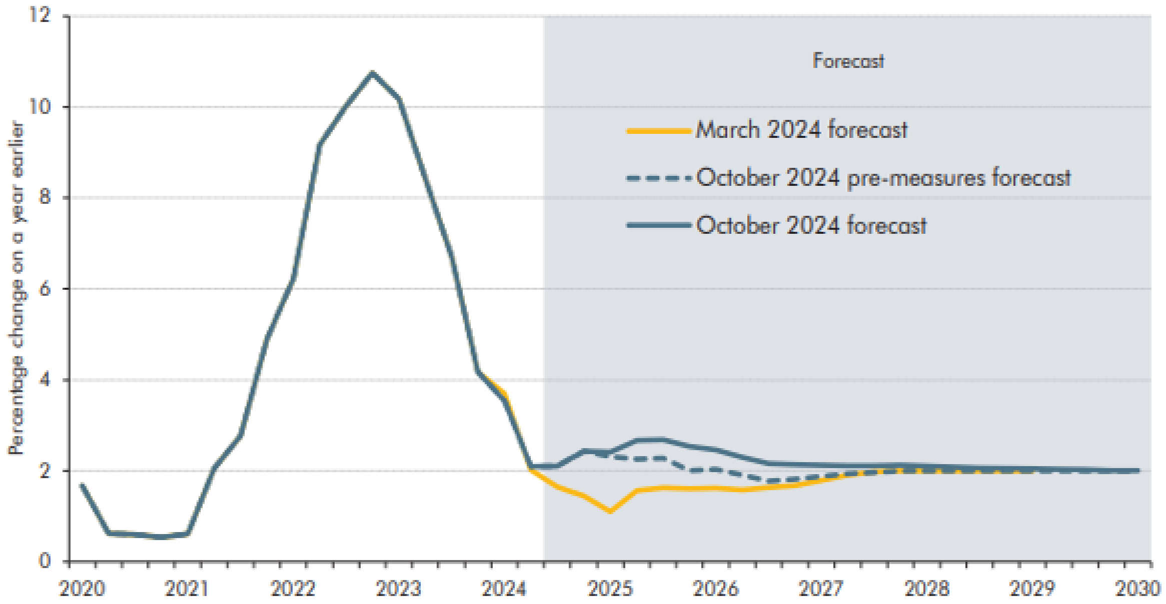
Policies announced in the Budget lead to a sustained increase in real government spending as a share of GDP.

Having stagnated last year, the economy is expected to grow by just over 1 per cent this year, rising to 2 per cent in 2025, before falling to around 1½ per cent, slightly below its estimated potential growth rate of 1⅔ per cent, over the remainder of the forecast. Budget policies temporarily boost output in the near term but leave GDP largely unchanged in five years. If the increased level of public investment were sustained, it would permanently raise supply in the long term and by significantly more than it does in the forecast period.

Having fallen back to around the 2 per cent target in mid-2024, CPI inflation is expected to pick up to 2.6 per cent in 2025 partly due to the direct and indirect impact of Budget measures. Inflation then slowly returns to the 2 per cent target by the forecast horizon as the effect of these measures fades and the positive output gap closes. Compared to the March forecast, inflation is 1.1 percentage points higher in

2025 and 0.6 percentage points higher in 2026, driven mainly by greater-than-expected persistence in wage growth and the impact of the near-term fiscal loosening in this Budget. It is estimated that Budget policy measures increase inflation by 0.4 percentage points at their peak effect in 2026, mainly reflecting the impact of the excess demand generated by the fiscal loosening and some pass-through of employer NICs to consumer prices. A further escalation of the conflicts in the Middle East poses a risk to the inflation forecast, initially via its impact on energy prices. Market expectations for 2025 oil prices have ranged between 68 and 84 dollars a barrel since the March forecast, compared to 71 dollars a barrel in the central forecast.

Figure 3 - CPI Inflation



Source: ONS, OBR

From its current level of 5 per cent, Bank Rate is expected to fall to 3.5 per cent in the final year of the forecast.

Supported by the temporary boost to demand from the Budget, the unemployment rate falls from 4.3 per cent this year to 4.0 per cent in 2026 before returning to its estimated structural rate of 4.1 per cent in 2028. Nominal earnings growth is expected to fall from 4.7 per cent this year to around 3½ per cent in 2025 and then average 2¼ per cent over the remainder of the forecast

Real household disposable income (RHDI) per person, a measure of living standards, grows by an average of just over ½ a per cent a year over the forecast.

The economic outlook depends on uncertain judgements on the paths for productivity, inactivity, and net migration. The fiscal forecast also remains highly sensitive to movements in interest rates and inflation given the level of debt.

UK Government's Autumn Statement: Implications for Wales

The Welsh Government was provided with a funding settlement for 2025-26 in the UK Government's Autumn Budget. The settlement for 2025-26 represented an increase of £695m resource and £235m general capital.

The UK Government confirmed, as part of the UK Autumn Budget, that devolved governments would be provided with additional funding to help mitigate the cost of increased employers' National Insurance contributions to support devolved public services, over and above the funding allocated in the UK Budget. The UK Government has confirmed it will use the official Office for National Statistics' definition of a public service employee for this purpose. We have also received significant funding for public sector pay in 2024-25 which is being baselined into 2025-26 and will support the vital work of our public sector workforce in communities across Wales.

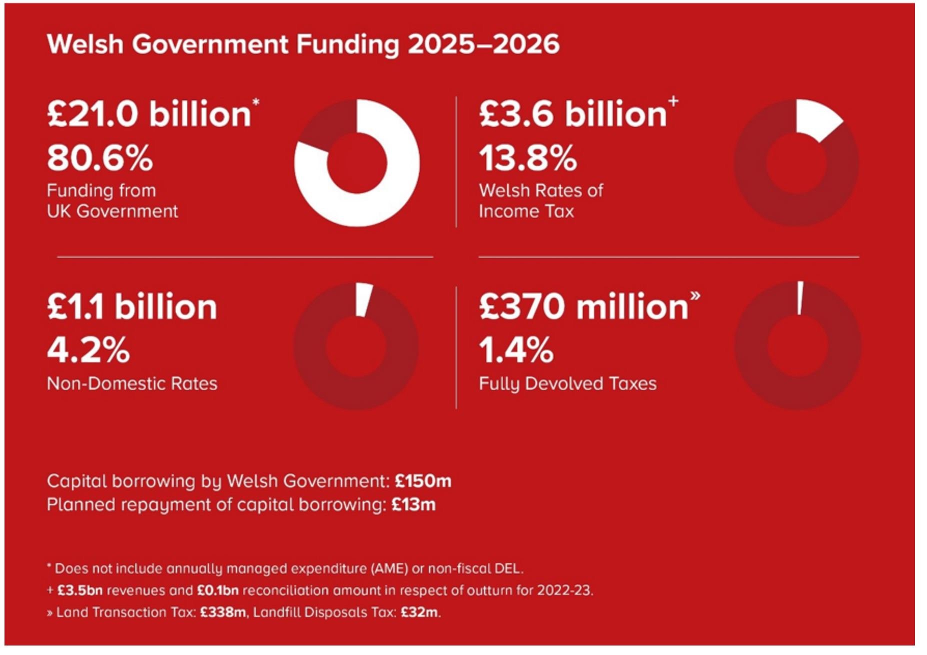
Looking beyond the 2025-26 Annual Budget, work has commenced on the Welsh Spending Review, an exercise that will consider longer-term fiscal planning for Wales, using all available fiscal levers. By addressing the well-recognised spending challenges, that Wales faces, over the longer term, this approach will provide the best defence possible against the challenging fiscal outlook for public finances. Consideration of these future challenges through a more preventative lens will be a key feature of this work.

Welsh Government's Budget and Outlook

The Welsh Government is primarily funded via a block grant from the UK Government. The funding the Welsh Government receives via the block grant for 2025-26 is £21bn, this includes almost £18bn resource funding and over £3bn capital funding.

In addition to the block grant, around 20% of the Welsh Government's spending in 2025-26 will be funded through revenues from devolved taxation – Welsh Rates of Income Tax, Land Transaction Tax, Landfill Disposals Tax, and Non-Domestic Rates. Devolved taxation provides an important lever through which the Welsh Government can raise revenue and deliver on our strategic priorities.

Figure 4 - The infographic below provides details of funding received by the Welsh Government for 2025-26.



The Welsh Government has been provided with a one-year settlement; this Draft Budget therefore outlines spending plans for one year only and expecting multi year settlements for resource and capital at the conclusion of the UK Spending Review in the first half of 2024 which will provide much needed certainty for the Welsh Government and partners.

Despite the increases in government spending on public services this year and next, the outlook for public finances beyond looks challenging. On current UK Government spending plans, increases to public services spending over the medium term are expected to be much lower. The Welsh Government's resource budget in 2025-26 is up 5% in real terms compared to outturn for 2023-24 on a like-for-like basis. Estimates for future years suggest more modest increases. The Welsh Government's general capital budget in 2025-26 is up 7% in real terms compared to the outturn for 2023-24. Estimates for future years suggest a more challenging outlook for capital budgets, with some reductions possible in 2029-30 as borrowing limits are reached.

The Cabinet Secretary for Finance and Welsh Language writes that "*The Welsh Government has worked hard over the last 14 years to protect Wales and Welsh institutions from the worst of the damage inflicted during that time by prioritising public services and putting money back in people's pockets wherever we can. We will continue to provide targeted support through our local taxes, council tax and nondomestic rates. Low-income households are supported with their council tax bills through the Council Tax Reduction Scheme. We will* *also continue to provide support to businesses and other ratepayers to pay their non-domestic rates bills. It remains true that we spend more on local government, more on health and social care and more on education per person in Wales than in England. However, after 14 years and despite our best efforts, many services are fragile and unable to withstand any further shocks. Too many services are too close to the brink."*

"This Draft Budget 2025-26 is not a panacea. It will not fix everything – nor should we expect it to. For many areas, the resource settlements are tight, and pressures remain. The overall financial climate in which we all operate remains challenging. But for the first time, in a long time, Public Sector Pay 13."

The Welsh Government received additional funding from the UK Government in 2024-25 which enabled above inflation pay awards for over 180,000 of public sector workers in Wales. This funding is included in the baseline for 2025-26 so additional funding referred to for 2025-26 already include the uplifts provided in 2024-25.

Significant funding has been provided in 2024-25 which is recurring and is therefore included in 2025-26 budgets before the additional funding allocations are made. These adjustments are outlined in the tables supporting the budget and show how the position has changed during 2024-25 from the 2024-25 Final Budget restatement set out in the 1st Supplementary Budget published in October. this budget provides us with optimism about a brighter future.

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 2025-26, Local Authorities will receive £6.1 billion from the Welsh Government (WG) in RSG and NDR to spend on delivering key services, an increase of 4.3%. Given the range of increases the government is open to considering providing additional floor funding at final budget.

For 2025-2026 the un-hypothecated revenue settlement increases by £253m. In determining this increase, WG have responded to the pressures that Local Authorities identified in our discussions which focused on pay and pressures in front-line services. In particular, pressures in ALN and wider education provision and recognise our critically important policy and delivery agenda in social care including steps towards the removal of profit from children's care, continuing the real living wage, improving access to social care and maintaining the care cap at £100 per week alongside supporting the 'whole system' approach to care closer to home.

Specific revenue and capital grants planned for 2025-26, amount to over £1.1bn for revenue and over £1.04bn for capital at this provisional stage.

Three Homelessness grants are transferred into the RSG:

- Homelessness No One Left Out Approach £15m
- Homelessness Discretionary Homelessness Prevention £5m
- Homelessness Strategic Posts (Reform) £1.32m

Some of the bigger and more significant reductions in 2025-26 include:

- Looked After Children Change Fund Supporting Foster Wales reduces from £2m to £200k
- Local Authority Education Grant - Cymraeg 2050 from £9.8m to £8.6m

There are increases in several grant schemes, some of the bigger and more significant include:

- Local Authority Education Grant Schools Standards increases from £160m to £168m
- Local Authority Education Grant Reform increases from £59m to £67m
- Mutual Investment Model Revenue increases from £6m to £12m

The work to reduce the administrative burden on Authorities, committed to as part of the Programme of Government has continued. Another three grants from housing, which were funding core activity have been transferred into the settlement. Work has been completed or is underway in other grant areas to streamline the amount of monitoring of grants, to ensure Welsh Government is only collecting the information which it, with Authorities, need to understand the impact and outcomes of grant programmes. This has included reducing the frequency of monitoring returns, simplifying grant application forms and having stepped criteria for business cases dependent on the size and risk of programmes or projects.

The change to the SCAPE rate was funded in 2024-25 through a specific grant for pre-16 teachers (£61m) and the fire service (£3m). This has been baselined in the settlement in 2025-26. In November, the Cabinet Secretary for Education announced additional funding to support Authorities and schools with the budgetary impacts of the difference between the planned pay uplift and the increased pay award for the seven months falling into 2024-25. This funding of £18m has been baselined in the 2025-26 Settlement and an additional £13m allocated for the full year costs. Authorities' budget planning must therefore accommodate these costs. Last week WG announced additional funding in support of pay pressures in Authorities, following higher than planned NJC pay awards, of £52m. This has been baselined in the Settlement alongside £900k for fire services pay pressures, which will flow through the levy. Authorities' budget planning must, as usual, accommodate any future rises.

The UK Government budget made changes to the rates and thresholds for employers' National Insurance Contributions ("NICs") from 1 April 2025 in the Autumn Statement. HM Treasury has confirmed it will provide additional funding in the first half of 2025-2026 to the Welsh Government to reflect the impact of the increased employers' NICs for public sector staff, following the ONS definition of a public sector employee, across the relevant bodies in Wales. Estimates from Local Government are that this is around £109m for Authorities in the coming year. In setting out the provisional Local Government settlement, this is not included in the current provisional Settlement. The impact of meeting these costs needs to be considered in budget planning, both for third sector and other providers. The assurance provided by WG enables Local Authorities to make reasonable assumptions in planning budgets with respect of their own workforce.

April 2025 will see the first year of payments to Authorities under the Extended Producer Responsibility ("EPR") scheme for packaging. The Welsh Government's intention is that the funding from the EPR scheme for packaging to cover the costs of managing packaging waste should be additional to the funding Authorities have previously received via the Local Government Settlement. This will unlock additional investment to improve recycling against the 70% minimum statutory target and support wider action as a key part of the action to decarbonise and grow the green economy. The scheme administrator has recently written out with the indicative fee income per authority for 2025-26. As announced on 10 December, the Cabinet Secretary for Finance and Welsh Language is providing a package of NDR support that will continue to benefit every ratepayer in Wales. This will cap the increase to the NDR multiplier for 2025-26 to 1%, at a recurring annual cost to the Welsh budget of £7m. As a result of this cap, the RSG element of the Settlement has increased by an equivalent of £7m.

The Welsh Government will cap the increase to the NDR multiplier in Wales to 1% for 2025-26. This is lower than the 1.7% (September CPI) increase which would otherwise apply from the default inflation of the multiplier in line with CPI. It is delivered at a recurring annual cost of £7m from 2025-26 onwards. Subject to approval of the required legislation by the Senedd, the provisional multiplier for 2025-26 is 0.568. We will also be investing an additional £78m to provide a sixth successive year of support for retail, leisure and hospitality businesses with their NDR bills. This builds on the £1bn of support provided through our retail, leisure and hospitality rates relief schemes since 2020-21. Eligible ratepayers will receive 40% NDR relief for the duration of 2025-26. As in previous years, the relief will be capped at £110,000 per business across Wales.

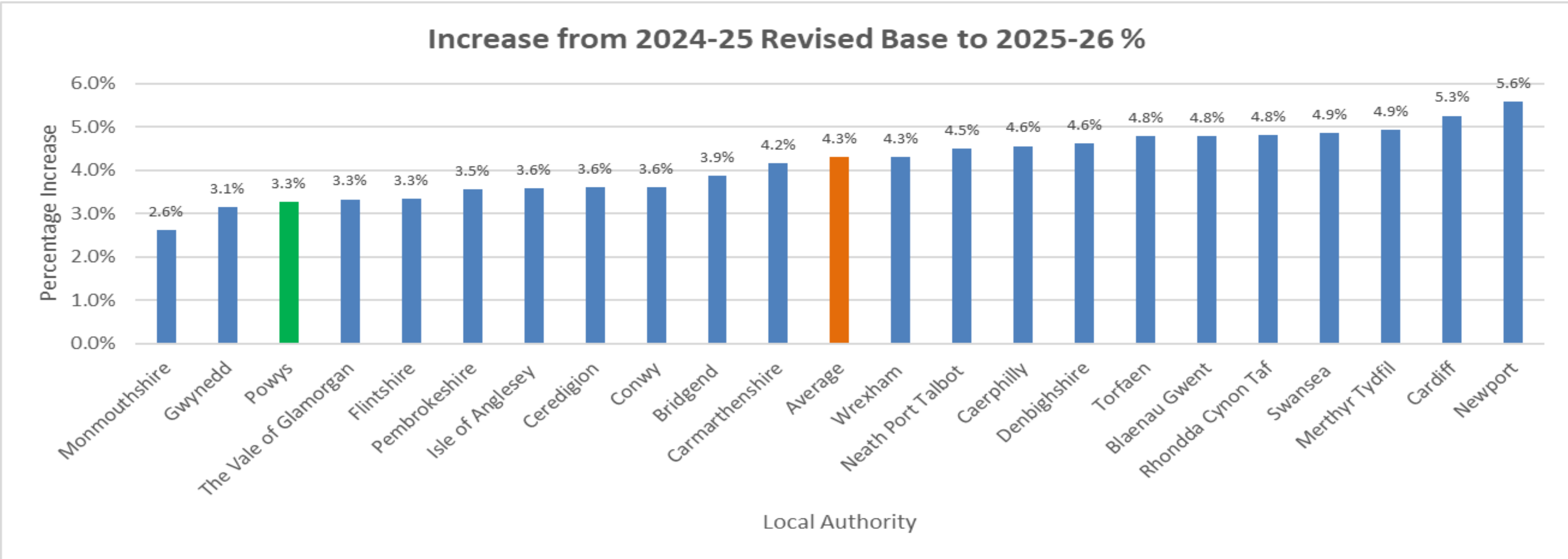
Overall Capital Funding (both General Capital Financing and Capital Grants) increases from £954 million to £1.040 billion on a like-for-like basis. The £86 million represents a 9% increase. General Capital Funding (GCF) has increased by £20 million from £180 million to £200 million. Transitional Accommodation Capital Programme increases by a similar cash amount (£21m) from £53m to £74m. Other large increases are:

- Social Sector Medium and High-rise Residential Building Remediation Capital Grant Fund which increases from £13m to £27m
- Local Government Decarbonisation which increases from £20m to £30m
- Social Housing Grant increases from £47m to £66m
- Coal Tip Safety Grant Scheme increases from £17m to £29m

The Graph at Figure 5 below shows changes to the AEF across the Local Authorities in Wales. The average increase is 4.3% 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 3.3% after adjusting for transfers, this equates to an additional £7.929 million for next year. Figure 5 shows changes to AEF by local authority, 2024-25 to 2025-26, Powys received the third lowest increase.

Figure 5



2.5 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 our Rural Cost Analysis 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.

The 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 1.3% provided as indicative funding for 2026-27 onwards.

On the current modelling, to deliver a balanced annual budget between April 2025 and 2030 the Council will need to reduce its spending by more than £39.1 million in addition to the assumption to increase council tax by 8.9% in 2025/26 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.

The last thirteen years of austerity as seen the deliver savings of £136 million 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 9% and there are 463 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. We continue to invest in our largest services, the table below shows a 30% increase in funding since 2018-19 due to demographic demand and inflationary pressures.

Figure 6: Budget Changes

	Net Budget - £'000			
	2018-19	**2024-25**	**Change**	**%**
Childrens	18,842	30,673	11,830	62.79%
Adults	64,039	92,531	28,493	44.49%
Education	93,357	107,348	13,991	14.99%
	176,238	**230,552**	**54,314**	**30.82%**

3. Medium Term Financial Plan

3.1 Five Year Projections

Based on the modelling assumptions (settlement +3.3% in 2025-26 reducing to 1.3% 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

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	Cumulative £'000
FRM Net Exp	365,778	389,052	405,953	423,381	444,262	
Current Year Budget	341,626	365,778	389,052	405,953	423,381	
GAP - each year	**24,151**	**23,275**	**16,901**	**17,427**	**20,882**	
Additional Funding						
Council Tax increase (+8.9% and tax base increase, +5% then on)	-9,833	-6,154	-6,481	-6,825	-7,187	
Settlement (2.8% transfers, 3.3%, then 1.3%)	-14,319	-3,252	-3,210	-3,168	-3,127	
Net Gap - Each Year	**0**	**13,868**	**7,210**	**7,434**	**10,568**	**39,080**

3.2 The FRM and Cost Assumptions

Figure 8 provides the summary position by service for 2025-26.

Figure 8 2025-26 Service Budgets

Service 2025/26													
£'000	Base Budget 2024-25	Pay Award 2024/25	Pay Award 2025-26	Non Pay 2025-26	Grant Changes	Demography	Pressures	Savings	2024-25 Undelivered Savings	Capital	Request 2025/26	Variance	% Increase
Delegated	88,964	716	2,778	63	0	125	3,743	0	0	0	96,389	7,425	8.3%
Education	17,854	29	343	53	75	0	1,160	-1,261	390	0	18,644	789	4.4%
HTR	36,256	85	824	382	0	0	1,342	-3,584	323	0	35,628	-628	-1.7%
Housing	760	-7	20	52	691	0	400	-52	0	0	1,864	1,104	145.2%
Community Wellbeing	3,065	5	66	11	0	0	29	-116	0	0	3,060	-5	-0.2%
Planning & Regulatory Services	10,039	74	392	27	0	0	167	-679	0	0	10,020	-19	-0.2%
ASC	92,426	66	805	50	0	1,570	12,002	-3,292	0	0	103,626	11,201	12.1%
Children	30,726	-55	579	52	0	0	1,802	-764	0	0	32,340	1,614	5.3%
Finance	7,164	-16	202	64	0	0	0	-239	0	0	7,175	11	0.1%
Business Intelligence & Governance	4,133	-11	180	6	0	0	0	-122	0	0	4,185	53	1.3%
WOD	2,839	-7	92	32	0	0	0	-118	0	0	2,837	-1	0.0%
Digital	5,428	-5	111	47	0	0	0	-164	0	0	5,418	-11	-0.2%
Economy & Climate	877	-8	51	1	0	0	0	-37	0	0	883	7	0.8%
Legal	1,614	-10	51	2	0	0	165	-10	0	0	1,813	199	12.3%
Corp	39,483	-3	7	12	0	0	1,644	-1,850	0	2,602	41,895	2,412	6.1%
Total	**341,626**	**854**	**6,502**	**854**	**766**	**1,695**	**22,454**	-12,287	**713**	**2,602**	**365,778**	**24,151**	7.1%

Employee Costs –The FRM in 2025/26 pay assumptions are that NJC and Teachers will increase by 3% in 2025-26, 2% then on. The service budgets holding £6.5 million in 2025/26 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 £0.4 million expected over the next financial year. The next review will take place through 2025 and as a fully funded pension scheme we have assumed further savings could be achieved from 2026-27 by removing the back funded contribution rates of £1.5 million each year. The Teacher's Pension Scheme (TPS) was subject to its actuarial review with increased rates from 1st April 2024, fully funded by Welsh Government.

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 – There was a rebound in CPI inflation, from 2.3% in October to 2.6% in November (BoE 2.4%, consensus 2.6%). These rates are well above those consistent with the 2.0% target and are currently moving in the wrong direction. It is likely that CPI inflation will rise further in January, perhaps to around 2.8%. 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. 2% general inflation has been applied to supply non pay budgets costing £0.9 million.

Capital Financing Costs – £2.6 million is required to achieve the Capital and Treasury Management Strategy, reflects the five-year capital programme and the cost of commitments made in previous years, alongside the reduced under borrowing by use of the Councils cash balances. 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 2025/26 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 Bannau Brycheiniog 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 2025-26 financial year is £72,874,000. For Powys, the Councils budget includes an estimate of £10,739,875 , an increase of £568,521 (5.59%) from that provided last year. This amount is funded in part through the Local Government settlement with the remainder being met from Council Tax. This uplift includes an amount for the employer national insurance increase, the funding of which will be received next year.

Apprenticeship Levy - The Apprenticeship Levy is a Government levy payable by larger employers at 0.4% 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 £1.6 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 £0.8 million decrease in primary and secondary pupils, with an increase in special school activity of £0.9 million. 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.

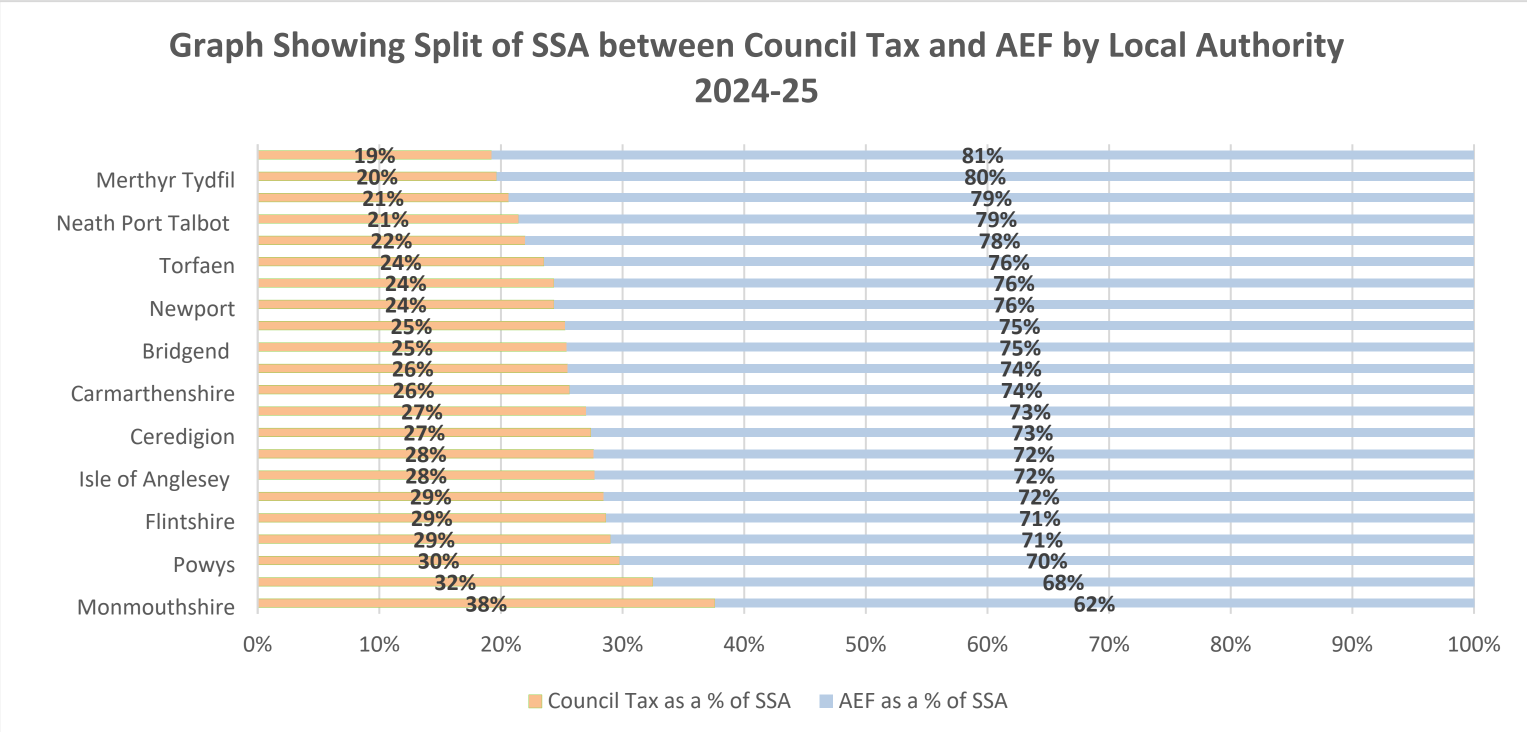
The financing of the net budget comes from the Welsh Government settlement and gross Council Tax income. Figure 9 below summarises the current assumptions.

Figure 9

	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	Cumulative £'000
Council Tax increase (+8.9% and tax base increase, +5% then on)	-9,833	-6,154	-6,481	-6,825	-7,187	-36,479
Settlement (2.8% transfers, 3.3%, then 1.3%)	-14,319	-3,252	-3,210	-3,168	-3,127	-27,077
Total Funding	**-24,151**	**-9,407**	**-9,691**	**-9,993**	**-10,314**	**-63,556**

Council Tax - Council Tax represents around 30% 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 and Council Tax 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 8.9% for 2025/26 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

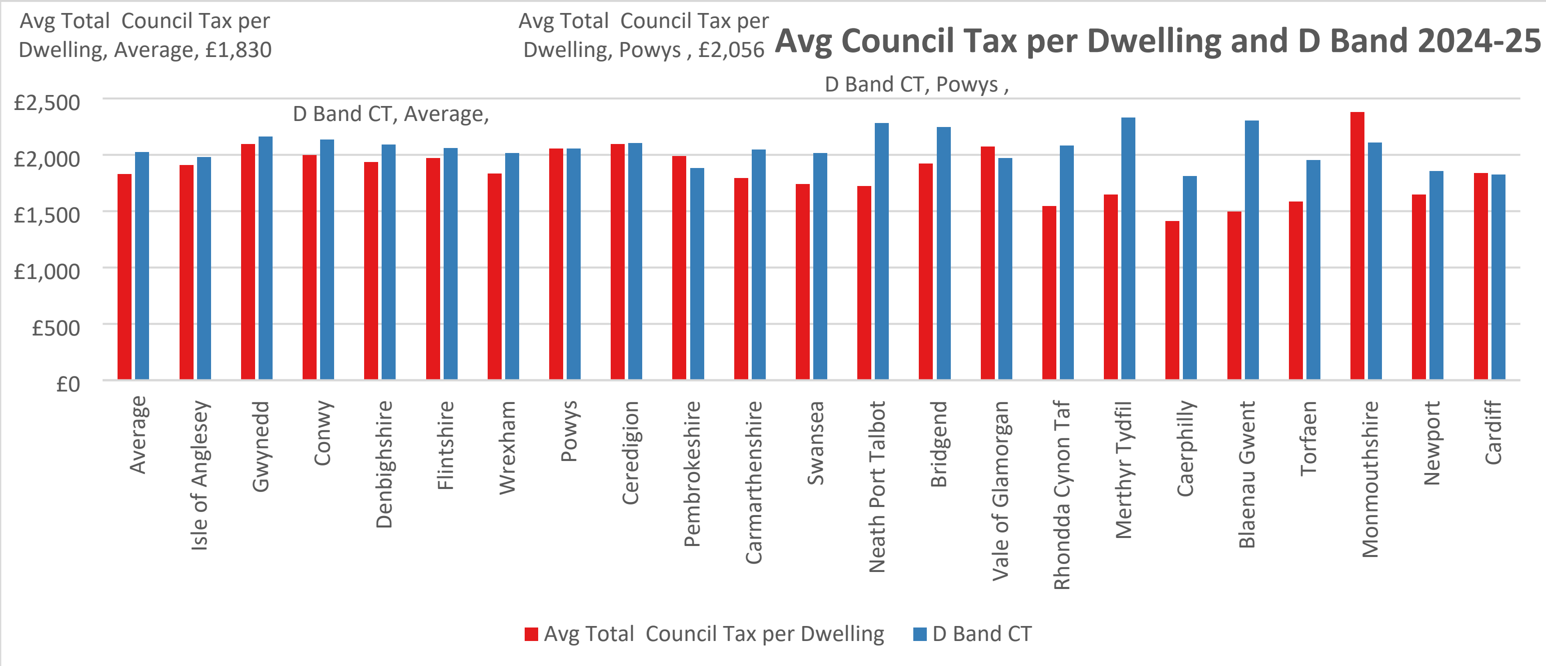
% Change Council Tax	1.00%	2.00%	3.00%	4.00%	5.00%	7.00%	10.00%	12.00%	13.00%
£'000 Council Tax	£1,058	£2,115	£3,173	£4,230	£5,288	£7,403	£10,576	£12,691	£13,749
£'000 Council Tax Less CTRS	£942	£1,883	£2,824	£3,765	£4,706	£6,589	£9,413	£11,295	£12,237

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 remains difficult due to the continued impact of inflation falling both on our residents and the Council.

Average Council Tax per dwelling in Powys for 2024-25 was the 5th 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).

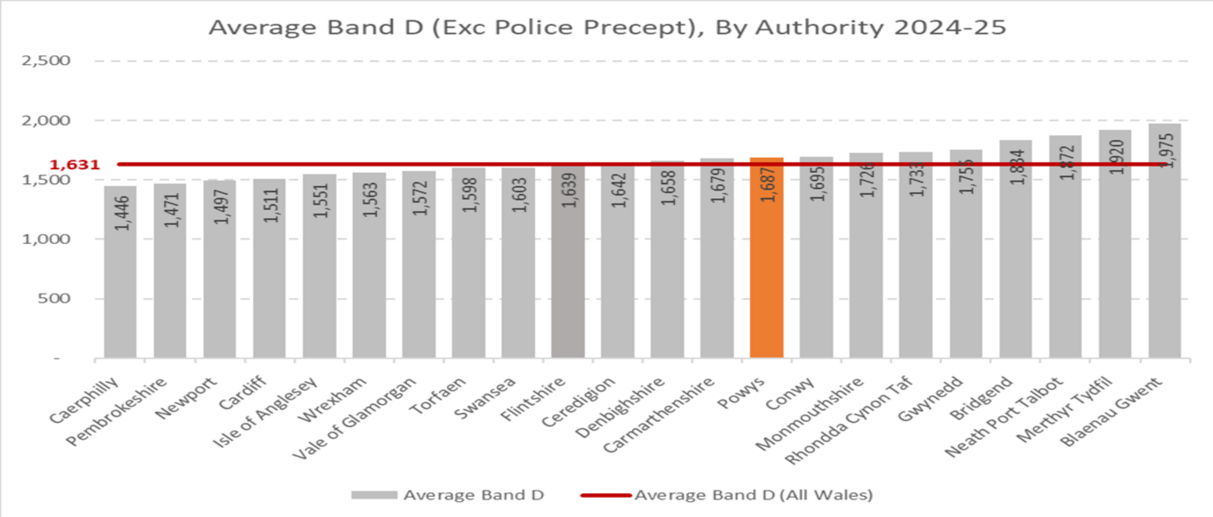
Figure 12: Average Council Tax per Dwelling and Band D



For 2024-25, the average annual Council tax bill for a Band D property in Powys was £2,054 (excluding community council and police precept). This is above the Wales average for Band D properties of £2,024.

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 2023-24 was 96.0% (0.1% decrease on previous year) 9 authorities recorded a year-on-year increase in their collection rate in 2023-24 and 13 recorded a decrease. Powys collected 96.8% against a target of 98.5%. The highest collection rate in Wales was 97.9% for Neath Port Talbot.

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 (£80 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 £80 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 acknowledged 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 Sensitivity Analysis

The MTFS is prepared using the best information at this point in time, but as a working document it will continue to be updated until the budget is agreed in February 2025. The volatile economic environment affecting inflation and prices and demands on services means further modelling will need to 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)	- 1,057,615	- 2,115,226	- 3,172,839
WG Settlement	- 2,358,651	- 4,717,302	- 7,075,952
Pay (Teachers)	623,416	1,246,832	1,870,249
Pay (NJC)	1,183,059	2,366,119	3,549,178
Non-Pay (excluding contract uplifts)	426,825	2,592,139	3,888,208

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 £39.1 million and £68.2 million.

Figure 15

	2025/26	2026/27	2027/28	2028/29	2029/30	Cumulative
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
FRM Net Exp	365,778	389,052	405,953	423,381	444,262	
Current Year Budget	341,626	365,778	389,052	405,953	423,381	
GAP - each year	**24,151**	**23,275**	**16,901**	**17,427**	**20,882**	
Additional Funding						
Council Tax increase (+8.9%, +5% then on	-9,833	-6,154	-6,481	-6,825	-7,187	
Settlement (2.8% transfers, 3.3%, then 1.3%)	-14,319	-3,252	-3,210	-3,168	-3,127	
Net Gap / (surplus)	**0**	**13,868**	**7,210**	**7,434**	**10,568**	**39,080**
Additional Funding						
Council Tax increase (+8.9%, +5% then on	-9,833	-6,154	-6,481	-6,825	-7,187	
Settlement (2.8% transfers, 3.3%, then 0%)	-14,319	0	0	0	0	
Net Gap / (surplus)	**0**	**17,120**	**10,420**	**10,603**	**13,695**	**51,838**
Additional Funding						
Council Tax increase (+8.9%, +5% then on	-9,833	-6,154	-6,481	-6,825	-7,187	
Settlement (2.8% transfers, 3.3%, then -2%)	-14,319	5,004	4,904	3,251	3,209	
Net Gap / (surplus)	**0**	**22,124**	**15,324**	**13,854**	**16,904**	**68,206**

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. £2.6 million is identified on the Risk Schedule. 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. £1.6 million has been estimated for next year, this could increase or decrease depending on demand.

Childrens services have assumed an additional Children Looked After totaling £1.0 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 as at 30th September 2024

Summary	**Opening Balance (1 April 2024) Surplus / (Deficit)**	**Budgeted Transfer to / (Use) of Reserves**	**Forecast (Over) / Under Spend**	**Forecast Balance (31 March 2025) Surplus /**
General Fund Reserve	10,037	0	0	10,037
Budget Management Reserve	3,584	0	0	3,584
Transport & Equipment Fund	11,218	(4,109)	0	7,109
Other Specific Reserves	32,410	(3,237)	(141)	29,032
Total Useable Reserves	**57,249**	**(7,346)**	**(141)**	**49,762**
Schools Delegated Reserves	891	(2,309)	(73)	(1,491)
School Loans and other items	(400)	0	0	(400)
Housing Revenue Account Reserve	3,812	(984)	(54)	2,774
Total Revenue Reserves	**61,551**	**(10,639)**	**(268)**	**50,645**
Revenue Grants Unapplied	11,608	(11,260)	0	348
Total	**73,160**	**(21,899)**	**(268)**	**50,993**

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

Capacity to Deliver Transformation/Improvement within Services - as part of Sustainable Powys service redesign will take place, to ensure services can continue to be delivered to meet demand within reducing budgets. Having sufficient capacity and resource to deliver and implement change projects is essential to meet the deadlines and deliver savings.

Delivery of Cost Reductions - The level of cost reductions required in 2025/26 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. Reserves will not be used to bridge any funding gaps.

Demand - rising demand, particularly within Social Care and ALN services, increased numbers of Unaccompanied Asylum Seeking Children and Homelessness. We continue to model future demand, but the approach is complex and any sensitivity analysis can have high value for small numbers of service users. The work of social care is significantly impacted by the health system, and maintaining flow of patients through the system relies on social services being able to access and provide appropriate community, home, residential and nursing care. Accessible prevention and early intervention work is also essential to reduce the flow of patients into health and statutory social care systems. Demand has risen significantly and continues to be a considerable risk.

Economic Impact – Supply and Demand: as has been seen in recent years with Brexit and Covid impacts with increasing costs and pressures for building materials, fuel, vehicles etc. Uncertainty in Interest Rates increases the cost of borrowing and impact on affordability of the Capital Programme. Inflation drives up pay awards and contract uplifts.

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. The sustained higher levels of interest charged for borrowing has increased our costs. We continue to monitor these daily seeking opportunities whenever possible.

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. Financial Resilience

5.1 <u>Audit Wales</u>

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 initial assessment concluded 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.

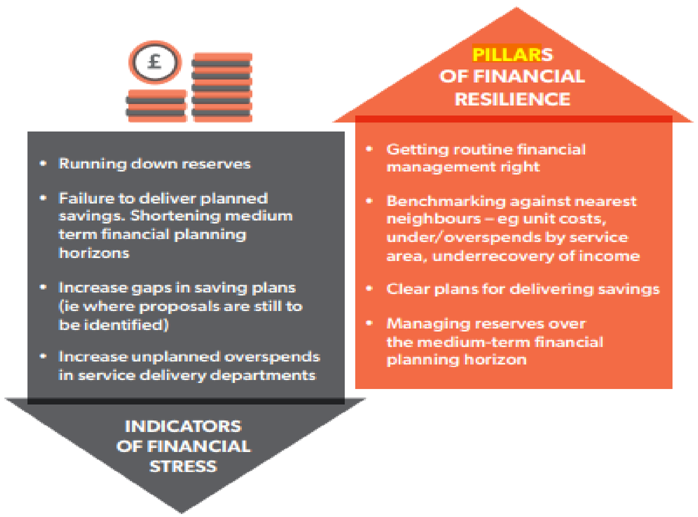
A more recent review in 2024 had audit objectives to provide assurance that councils have proper arrangements to support their financial sustainability and to explain Councils' financial position and the key budget pressures and risks linked to their financial sustainability, assessing whether the proper arrangements were in place, with two key recommendations to drive forward improvement. The delivery of these is monitored through the Regulatory Tracker:

- To address its medium to long-term financial sustainability, the Council should implement at pace its long-term transformation programme.
- To provide greater insight into the overall effect of its savings proposals over time, the Council should explicitly report on the actual impact of savings proposals on both communities and corporate objectives

5.2 CIPFA's Pillars of Financial Resilience

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



5.3 **Financial Resilience Snapshot** - has been developed which provides a high-level overview of the financial health of the Council. The latest snapshot was presented as part of the MTFS update in July 2024. 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. Delivery of savings in 2023/2024 of £15.4 million, saw delivery improved to 88%. Our aspiration is to improve delivery to over 90% of our savings target in this and future years.
- Taken the opportunity 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. 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.

5.4 **In Summary** - 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 that is completed each year.

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.

Council will need to be decisive and bold and work in partnership with other partners and our communities to deliver a Stronger, Fairer, Greener and Sustainable Powys.