

# CYNGOR SIR POWYS COUNTY COUNCIL

## CABINET EXECUTIVE Date: 14<sup>th</sup> January 2025

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

**SUBJECT:** Draft Medium-Term Financial Strategy 2025-2030, Draft  
2025-26 Budget and Capital Programme for 2025-2030

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**REPORT FOR:** Decision

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### 1. Purpose

- 1.1 To seek Cabinet's approval of the updated draft Medium Term Financial Strategy (MTFS) for 2025-30, which includes a Financial Resource Model (FRM) for 2025-30, a draft revenue budget for 2025-26 and a draft Capital & Treasury Management Strategy for 2025-26 to 2029-30.
- 1.2 The Council is legally required under the Local Government Act 2003 to set a balanced budget for the forthcoming financial year; the MTFS reports a balanced budget for 2025-26. There is no requirement to set out a balanced position beyond the next year but the five-year strategy has been developed to enable longer term planning and transformation.

### 2. Background

- 2.1 The Medium-Term Financial Strategy sets out the financial strategy for Powys County Council (the Council) for the period 2025 to 2030. The strategy captures the financial, regulatory and policy drivers affecting the Council and sets the direction and approach, providing a framework in which the Council develops its financial plans. It also incorporates the plan for delivering a balanced budget for 2025-26, and indicative budgets for the following 4 years to March 2030.
- 2.2 The financial strategy is the link between the organisation's long term service objectives and its financial capacity. It seeks to ensure that the Council's strategic objectives can be achieved within the confines of the financial resources available.
- 2.3 On the 30<sup>th</sup> July 2024, Cabinet received a Financial Planning Update report which provided an update on the latest economic projections and how these influence and impact on the development of the Council's Budget for 2025/26 and the Medium Term Financial Strategy.
- 2.4 The Report highlighted the volatility of the position and noted the absence of agreed pay awards, inflation forecasts and demand pressures as among factors requiring ongoing review.

- 2.5 As a service-driven organisation, workforce costs are a key cost driver across our services, sustained levels of inflation continue to impact and drive pay negotiations nationally resulting in increased pay costs for Teachers and Council staff. Pay and cost pressures have been equally challenging for providers of the services that the Council commission and it is inevitable that they seek to pass these on in their pricing.
- 2.6 The budget delivered by the Chancellor on the 30th October has had further impact on our financial planning. The employers National Insurance change adds direct costs of £3.5 million to our budget plan from 1st April 2025, we await further clarification as to what additional funding we will receive to support these costs. The increase in both the National and Real Living Wage will also increase costs for many of the external providers that are contracted to the Council, estimated at £3.2 million.
- 2.7 Inflation continues to impact construction and material costs and have a severe impact on the cost of schemes for both Revenue and more significantly for Capital Projects. Interest rates for new borrowing undertaken by the Council have not fallen as quickly as anticipated further adding pressure to financial borrowing costs.
- 2.8 The cost-of-living challenge continues to impact on our local businesses and residents, demand for our services continues to grow, including increased levels of homelessness and additional referrals to social services, all creating further additional pressure on the Council and its services through 2025-26 and beyond.
- 2.9 On the 11<sup>th</sup> December 2024, the Cabinet Secretary for Housing and Local Government announced the details of the provisional Local Government Revenue and Capital settlement for 2025-26. The impact of the Provisional Settlement together with wider updates to budget modelling resulted in an updated budget gap of £13.5 million.
- 2.10 The position has continued to be updated and the development of new proposals enables Cabinet to propose a balanced budget for 2025-26 with the inclusion of a 8.9% increase in Council Tax. Indicative budgets are also reported for the following 4 years to March 2030. Difficult decisions are having to be made and will continue as we maintain a balanced budget this year and over the medium term.
- 2.11 It is clear that the Council in its current form is not sustainable for the longer term, in response to this challenge the Council has embarked on a programme of change to reimagine what the Council should look like in the future to ensure that it can remain financially stable and provide sustainable services in the long-term. “**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.
- 2.12 Alongside the proposed revenue budget the proposed Capital Programme reflects the existing commitments made in previous years as well as new schemes already approved. Investment is prioritised to support the delivery of key Council objectives,

statutory requirements and to manage corporate risk, whilst ensuring that our Capital plans remain affordable for future generations.

- 2.13 The setting of our budget, and in turn Council Tax, takes account of the full range of funding sources available to us, as well as the pressures we face. The funding position both next year and beyond is set in the context of ongoing uncertainty.
- 2.14 The Corporate Strategic and Equalities Plan (CSEP) will reflect the Council's operating environment and priorities and the 2023-27 Plan will be presented to Council for approval, at the same time as the final MTFS is presented at full Council on the 20<sup>th</sup> February 2025. This will ensure the Corporate Strategic and Equality Plan and MTFS are aligned, enabling the reader to make explicit links between the Council's priorities and the resources directed to support them.
- 2.15 Production of the draft budget for the forthcoming year was dependent on receipt of the provisional Local Government settlement from the WG which for 2025-26 was published on 11<sup>th</sup> December 2024. This report provides a draft budget for 2025-26 for Cabinet's approval, subject to which it will be considered by the Council's Scrutiny Committees before a final budget is presented to full Council for approval on 20<sup>th</sup> February 2025. The Welsh Government draft budget will be scrutinised and the final budget will be published on 25<sup>th</sup> February 2025; if there are any late changes these would need to be made and presented to Council at the meeting on the 6<sup>th</sup> March 2025 for further approval or at a further meeting of Council if required.

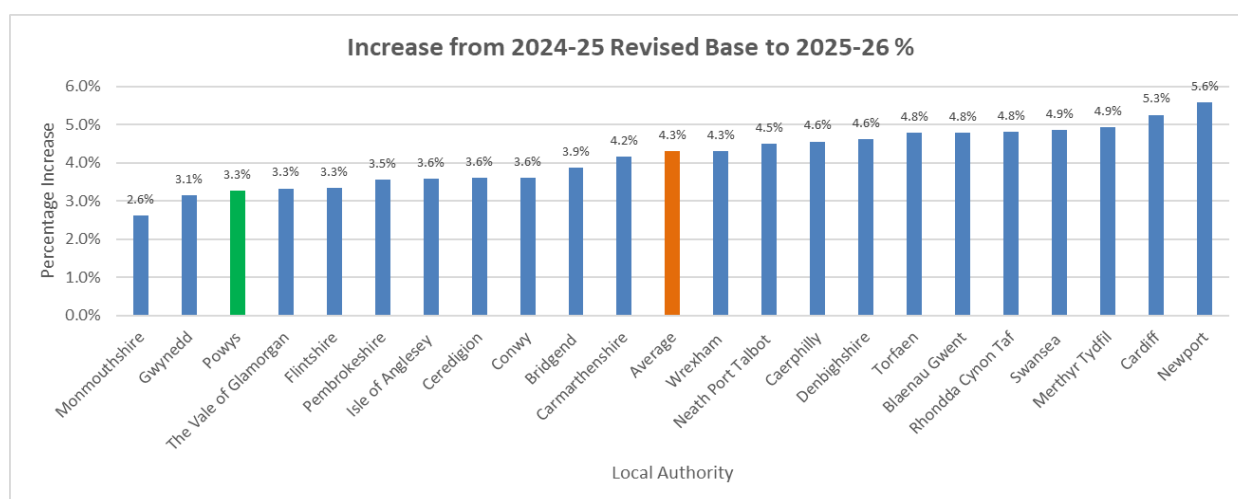
### **3. Advice**

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

- 3.1 The Local Government Revenue Settlement comprises Revenue Support Grant (RSG) and redistributed National Non-Domestic Rates (NNDR) revenues and is known as Aggregated External Finance (AEF). In 2025-26, Welsh local authorities will receive £6.1bn from the Welsh Government Revenue Support Grant (RSG) and non-domestic rates (NDR) to spend on delivering key services. An increase in core revenue funding for local government of 4.3% on a like-for-like basis compared to the current year.
- 3.2 The Welsh Government has increased AEF (Aggregate External Finance) by £253m. The WLGA put that in the context of local government pressures currently estimated at around £559.0m for 2025-26, with this figure not taking into account the additional cost pressures caused by the changes to National Insurance in the UK budget.
- 3.3 The provisional settlement does not include funding for the increased National Insurance employers contributions for April 2025 estimated at £109m across Wales, there will be an additional allocation based on the funding provided by HM Treasury. It is not clear at this stage whether the funding that will be provided will contribute to the additional cost or fully fund it. It is expected that clarification will be provided in May 2025.

- 3.4 The provisional AEF for Powys in 2025/26 is £250.1m. Funding (after adjusting for transfers) has increased in cash terms by £7.9m, a 3.3% increase. Ranked 20th across Wales.
- 3.5 The lowest increase is Monmouthshire with 2.6% and the highest is Newport with an increase of 5.6%.
- 3.6 Figure 1 below shows the range around the average of 4.3% driven by the funding formula. This is largely a reflection of redistributive effect relative size of the taxbase and changes in data, significantly population and pupil numbers.

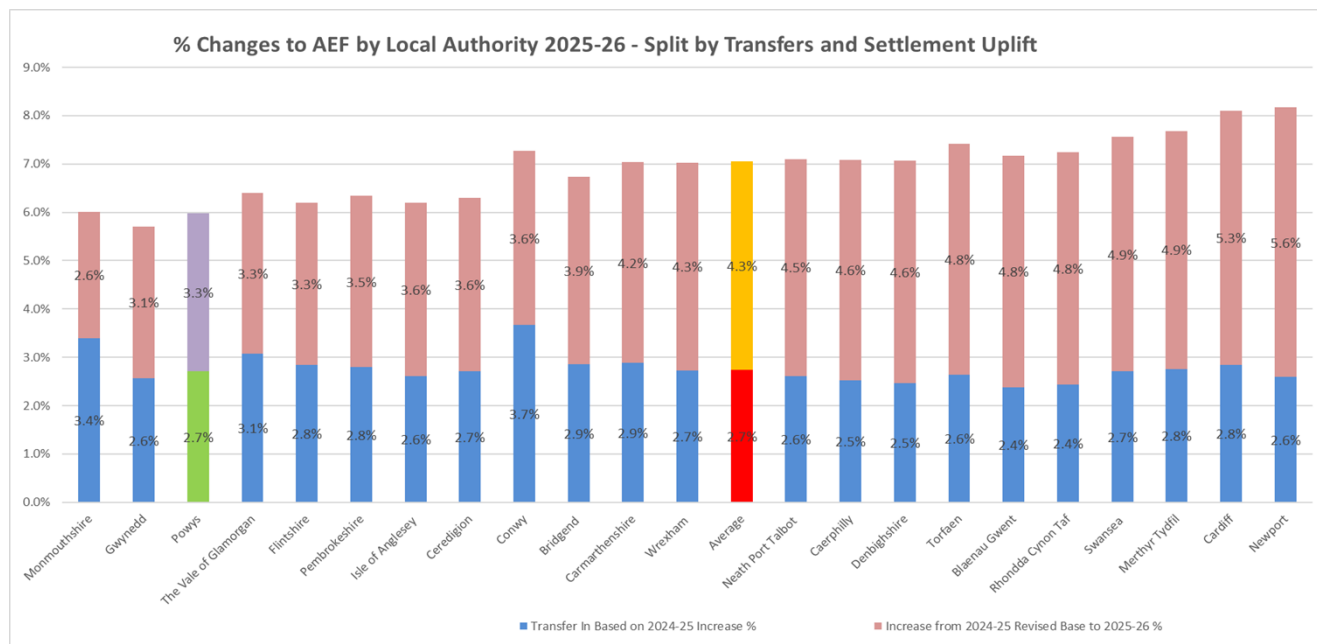
Figure 1: Changes to AEF by local authority, 2024-25 to 2025-26 graph (like for like changes)



- 3.7 Powys has £1,861 of funding per capita, compared to the Wales average of £1,937 and the year on year change ranks 17th out of all the Unitary Authorities.
- 3.8 Average band D council tax set for Powys in 2024-25 was £2,054 which was above the Welsh average of £2,024.
- 3.9 Although the funding change is set out as 3.3% for Powys, Welsh Government have provided additional funding to support SCAPE pensions and both teachers and NJC pay pressures in the current financial year (2024-25), this allocation is continued and now transfers into the settlement adjusting the opening base for the council in 2025-26. A number of grants also transfer into the baseline budget.
- 3.10 For Powys these adjustments increase the original opening base of £235.8m for 2024/25 to £242.2m providing an additional 2.7%.
- 3.11 Taking into account these adjustments the overall change in the funding settlement for Powys from that received in 2024/25 to the allocation provided for 2025/26 is an additional 6.0% equating to £14.3m, with Powys ranked 20th out of 22 compared to the average increase across Wales at 7.2%.
- 3.12 This is a one year settlement as the Comprehensive Spending Review is due to be undertaken in Spring 2025, there is no forward indication of settlements beyond any work undertaken by Wales Fiscal Analysis.

3.13 Figure 2 shows both the in year transfers that impact on the opening position in 2025-26 alongside the AEF uplift.

**Figure 2:** Changes to AEF by local authority, 2024-25 to 2025-26 graph



3.14 In her letter to Local Authorities (which is attached) the Cabinet Secretary for Housing and Local Government confirms:

3.14.1 The changes to the SCAPE rate (teachers and fire pension) 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.

3.14.2 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 teachers funding of £18.0m has been baselined in the 2025-26 Settlement and an additional £13m allocated for the full year costs. All the available funding has been provided up front in recognition of the 2025-26 teachers' pay deal. Authorities' budget planning must therefore accommodate these costs.

3.14.3 Following higher than planned NJC pay awards, funding of £52.0m is provided in 2024-25 to support pay pressures in Authorities. This has been baselined in the Settlement alongside £900k for fire services pay pressures, which will flow through the levy.

3.14.4 Welsh Government decisions on funding also recognise their 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.

3.14.5 April 2025 will see the first year of payments to Authorities under the Extended Producer Responsibility (“EPR”) scheme for packaging which has been jointly developed on a four nations basis. 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.

3.14.6 The settlement maintains the funding to support Council Tax Reduction Scheme (CTRS) for 2024-25 and are again providing £244.0m.

3.14.7 The Cabinet Secretary does not consider that it is appropriate for the Welsh Government to set an arbitrary level of council tax increase irrespective of local circumstances or choices. Authorities will need to take account of the full range of funding sources available, as well as the pressures we face.

### **Business Rates**

3.15 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 £7.0m. 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 £38.0m in 2024-25.

3.16 Outside of the Settlement, alongside the multiplier cap, WG 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 the 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.

### **Specific Grants**

3.17 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.

3.18 Three Homelessness grants are transferred into the RSG:

- Homelessness No One Left Out Approach £15.0m
- Homelessness Discretionary Homelessness Prevention £5.0m
- Homelessness Strategic Posts (Reform) £1.3m

3.19 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

3.20 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

3.21 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.

## **Key Indicators**

3.22 Welsh Government funding is allocated to unitary authorities via a pre-determined formula and is driven by a number of 'indicators' (e.g. population projections, pupil numbers, primary free school meals and income support, job seekers allowance or pension credits claimants). The movement in these indicators, relative to the movement in the indicator for Wales as a whole, will affect Powys' share of the overall funding available. The changes to the key indicators are shown in the table below.

## **Changes in key Datasets**

Dataset <sup>1</sup>	2024-25 Final	2025-26 Provisional	% Difference	Rank	% share 2024-25	% share 2025-26	Change in % share	Rank
Total Population <sup>2</sup>	133,891	134,439	0.4%	17	4.28%	4.25%	-0.03%	16
Pupil Numbers - Nursery and Primary	9,554	9,394	-1.7%	10	3.75%	3.74%	0.00%	10
Pupil Numbers - Secondary in year groups 7-11	6,522	6,461	-0.9%	22	3.75%	3.68%	-0.06%	21
Free School Meals - Primary	1,637	1,707	4.3%	2	2.48%	2.54%	0.06%	4
Free School Meals - Secondary	1,086	1,209	11.3%	2	2.52%	2.59%	0.06%	2
IS/ JSA/ PC/UC (not in employment) claimants - 18 to 64	5,107	5,120	0.3%	11	2.72%	2.72%	0.00%	11
IS/ JSA/ PC claimants - 65+	3,468	3,370	-2.8%	7	4.04%	4.06%	0.01%	6
IS/ JSA/ PC/UC (not in employment) claimants - all ages	8,731	8,671	-0.7%	14	3.14%	3.13%	-0.01%	14
SDA/DLA/PIP claimants - 18 to 64	5,037	5,437	8.0%	11	3.09%	3.09%	0.00%	12

Notes:

1. For definitions of the indicators refer to the Local Government Settlement 2025-26 - Local Government Finance (Councils) Report. Population data set used for the 2024-25 final settlement was mid 2022 population estimates and for the 2025-26 Provisional settlement the mid 2023 population estimates.

3.23 Powys' Settlement reflects less favourable financial re-distributional movements in formula indicators such as pupil numbers, whilst there are more favourable financial movements in free school meals numbers.

## Provisional Local Government Capital Settlement

3.24 Overall Capital Funding (both GCF and Capital Grants) increases from £954m to £1.040bn on a like-for-like basis. The £86m represents a 9% increase. General Capital Funding (GCF) has increased by £20m from £180m to £200m whilst 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

3.25 For Powys the capital budget is made up of two elements:

- Supported borrowing 2025-26 totals - £4.6 million (additional £5,000)
- General Capital Grant 2025-26 totals - £5.8 million (additional £1m, which will save £50k in annual borrowing costs)

## Final Local Government Settlement

3.26 The publication of the Settlement in mid-December has enabled WG to draw on the latest tax-base figures for 2025-26, meaning that there should be no change between provisional and final settlements as a result of updates to the tax base. There is no guarantee that there will be no other changes between the provisional and final settlements, and whilst noting the financial uncertainty, WG do not intend making any significant changes to the methodology or the data underpinning the distribution of the Settlement.

3.27 The announcement of the provisional settlement launched a 6-week period of formal consultation which ends on Friday, 24 January 2025. Leaders across Wales are actively lobbying as part of this consultation for a funding floor to be implemented. Local Government pressures next year are approximately 7% of Councils spend and at an average increase of 4.3% this falls **well short** of what is needed to maintain statutory services at their current level and meet the needs of residents and communities. Should a floor mechanism be implemented Cabinet will consider amendments to the budget proposal following the increase in funding.

3.28 Councils appreciate that public sector finances remain under significant pressure and hard decisions are required, however, Leaders are concerned about the potential impact of cuts in service provision and relatively large Council Tax increases. The impact of this funding gap is highlighted in the WLGA papers on the financial pressures in education and social services. The impact on other services is potentially greater as funding for Councils' discretionary services such as parks, libraries, leisure centres, and advice services are reduced to meet the increased pressures in statutory services.

3.29 Welsh Government is due to publish its Final Budget and Final Local Government Settlement for 2024-25 on 25<sup>th</sup> February 2025.



## **Current Year (2024-25) Financial Performance**

- 3.30 The economic situation continues to challenge the Council and although inflation has slowed this continues to impact on the cost of delivering Council services.
- 3.31 Confirmation of Pay Awards has helped clarify our financial position for staffing costs. The teachers' pay award was increased to 5.5% from September 2024. WG have provided grant to cover the additional cost in 2024-25 which will be distributed to schools. There is also greater clarity now around the funding of the Teachers' Pension changes reducing that risk.
- 3.32 For other staff under the National Joint Council (NJC) scheme pay awards confirmed at a full time equivalent annual salary increase by £1,290 is confirmed. This represents a national pay award ranging from 5.8% for Grade 1 staff to 2.5% for those on top of Grade 14. The NJC pay agreement sees Senior Managers and Chief Officers pay increase by 2.5%. The Council budgeted for an average 4% increase in pay and is anticipated that this will largely cover the cost of the award.
- 3.33 Demand for some Council Services has increased beyond what was expected. Within social care, pressures and demography held at risk have materialised, with increased costs for care packages across Adults Social Care and Children's Services. Although the number of children looked after has not changed significantly, there has been an increase in complexity and costs for placements, caused in part by a national shortage. Within Adults, there has been a significant increase in the delivery of domiciliary care hours per week, supporting people to remain within their own homes and with hospital discharges. There has also been increased costs and demand for residential placements across Older Adults and Learning Disabilities.
- 3.34 At quarter 2 the impact of this demand reported a projected deficit revenue outturn position of £3.9 million for this financial year if nothing changed.
- 3.35 A level of increased demand was anticipated through the budget setting process and provision was made in the Risk Budget, but the current level of demand exceeds the forecast. The Council is managing its budget position this year through virements and drawing on the revenue risk budget set aside to add the resilience needed.
- 3.36 Further action with the tightening of spend controls and other measures implemented across all services particularly within Social Care together with the additional grant funding provided by Welsh government will help address these pressures and improve the position as we move through quarter 3.
- 3.37 Reserves are held to mitigate unexpected risks and if needed the use of reserves this year will ensure that we meet our statutory responsibility to deliver a balanced budget, however, we must ensure that we deliver Council services within the resources we are allocated on an annual basis. Holding sufficient reserves to manage the ongoing risk as we move into future years is key to maintain our financial sustainability.
- 3.38 The position will continue to be monitored and will be updated when the quarter 3 position is finalised and reported in February.

- 3.39 The shift in the forecast outturn for 2024-25 demonstrates the financial challenges the Council faces particularly in relation to Social Services. Powys is not unique in this challenge and with Councils across Wales seeing this impact. The costs being incurred this year will impact on future years and the budget proposal presented for 2025-26 considers this.

### **Draft MTFS 2025-30**

- 3.40 The Council's MTFS is set within the context of UK economic and public expenditure plans, WG priorities and legislative requirements. It articulates how the Council plans to use its resources (revenue and capital) to support the achievement of its corporate priorities as well as the management of its statutory and core duties, known pressures and risks. The MTFS helps the Council to work more effectively with partners in other sectors and provides a strategy for the use of reserves to meet changes in resources, risks or unforeseen demands from year to year without impacting unduly on services or Council taxpayers.
- 3.41 The draft MTFS for the next five years is attached at Appendix A, based on the latest information available. It does not include fixed funding, expenditure or activity projections, but sets out a five-year budget forecast for the resources that are likely to be available. The MTFS is reviewed regularly and will be amended as additional information becomes available, with the detail for future years being developed over the period of the strategy.

### **MTFS Principles**

- 3.42 The draft MTFS provides a set of clear principles which will drive the Council's budget and spending decisions over 2025-30 and which Members and others can examine and judge the Council's financial performance against. The ten key principles, which remain unchanged, are to ensure that:
1. The Council will strive to meet its statutory obligations and to demonstrate how its budget supports the Corporate Plan.
  2. The Council's financial control system will be sufficiently robust to support the delivery of financial plans and mitigate corporate risks.
  3. All Council budgets will be continually reviewed to ensure resource allocations are delivering value for money and continue to align to the delivery of priority Outcomes.
  4. Financial plans will provide an optimum balance between income and expenditure for both capital and revenue.
  5. Reserves will not be used to fund recurrent budget pressures or to keep down council tax rises.
  6. The Council's General Fund reserve will be maintained at a minimum of 4% of Net Revenue Expenditure (excluding the Schools Delegated budget) over the period of the MTFS.
  7. Capital investment decisions will support the Council's corporate priorities and mitigate any statutory risks taking account of the return on investment and robust business cases.

8. Prudential borrowing will only be used to support the capital programme where it is affordable and sustainable within the Council's overall borrowing limits and the revenue budget over the long term.
9. Decisions on the release of surplus assets will be based on an assessment of the contribution the asset makes, the impact holding the asset on the revenue budget and the capital programme.
10. Budgets will be managed by Directors and members of CLT in accordance with the Council's Financial Procedure Rules, flexibility through the virement process is fundamental to allow this.

3.43 Implementation of the MTFs will continue to be led by Cabinet and Senior Leadership Team (SLT)<sup>1</sup>, supported by robust financial and performance data. The Council will seek to ensure that it is widely understood by internal stakeholders (Members, employees and Unions) and external stakeholders (citizens, businesses and partners). As well as linking explicitly to the Council's corporate priorities and Sustainable Powys, the Council's Transformation Programme, the MTFs also links to other internal resource strategies such as the Workforce Plan, the Digital Powys Strategy, the Treasury Management and Capital Strategy, and Asset Management Plans. Integrated Business Planning is now embedded into the Council's planning framework and budget cycle and captures the output from each service to populate the overarching Councils plan.

### **Sustainable Powys**

3.44 Sustainable Powys was developed in response to a number of nationwide drivers that have come together and fundamentally challenged our ability to continue to provide public services either in the traditional way or indeed at all. These drivers include:

- Unprecedented demand in care services
- Changing customer expectations, including the rise of digital
- A crisis in recruitment and retention in key service areas
- Rising costs and the culmination of years of underfunding public services

3.45 Sustainable Powys aims to reshape services to address these drivers as we cannot continue to deliver services in the same way we have done so for decades, and goes far beyond a simple financial strategy and the need to resolve the Powys budget gap of more than £39 million over the next five years.

3.46 In response to this challenge the Council recognises the need to transform the type and volume of services that we can offer to put the organisation on a more sustainable footing. To achieve this fundamental transformation, a significant programme of change will be delivered to achieve a Sustainable Powys which is financially, socially, and environmentally sustainable and we must become more connected to the population we serve.

3.47 The budget and finance strand brings together all of these drivers and their impact and highlights the need to meet the statutory requirement to spend within available resources.

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

3.48 Sustainable Powys is based on a set of principles:

- Being open minded and seeking innovative solutions, using all the expertise available
- Delivering best possible outcomes through transformation to provide better quality services
- Using evidence – better understand need and model future demand, if we are not getting results, we should change
- A continual process of learning and adapting to meet existing and long-term needs sustainably
- Engaging early with people in agreeing, designing and delivering approaches so we listen, understand, reflect and feedback
- Addressing the fundamental question: why do we do what we do?
- A strategic whole system approach, with partners, communities and the people of Powys
- Delivering outcomes that are affordable or no cost

3.49 This is supported by a Place-Based Planning model based on the following principles:

- We will provide a hub in each of the five core areas - anything else will only be provided if there is an approved business case to support it
- We will utilise schools and other community assets wherever we can for community-based solutions and services
- Travel times can be up to 1 hour to your nearest hub (even if you are a child)
- Provision must be digitally supported
- Public and Community transport must align each locality to the hub

3.50 Delivering a Sustainable Powys will ensure that we can maintain a balanced budget, support each other, and protect the environment and nature of Powys. We will make better use of collective and reduced assets across the county, break down silos between services and maximise coordination with external providers and partners.

3.51 In achieving this we will have to make some difficult decisions as to how we prioritise our budget, supporting the needs of those that are most vulnerable in our County. This will be driven by focusing on the services that we are obliged to deliver in the most effective and efficient way, building a stronger, fairer, and greener future by fostering well-connected, economically resilient communities, ensuring fair access to services, tackling poverty and inequality and supporting the wellbeing of the people of Powys.

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

3.52 Over the past few years, the Council has sought to engage Powys citizens, local councillors, partners and the workforce in the budget development process. This included providing more information to the public and undertaking specific consultation on proposals. These have created the opportunity for residents to influence service delivery and helped define the priorities for the Council.

- 3.53 Further engagement during 2025 will offer residents further opportunity to help us redesign the Council for the future and engagement with Town and Community Councils and partners will be fundamental in developing local, community led solutions and building community resilience.
- 3.54 Members of the Council have engaged in the budget planning process through member budget seminars which have given Councillors the opportunity to review and challenge the process. The Finance Scrutiny Panel (comprising Group Leaders of Non-Executive Groups and Audit Committee representatives) have also been engaged during the process and financial assumptions have been shared with members.
- 3.55 This report presents the detailed draft budget for 2025-26 and each of the Council's Scrutiny Committees will have the opportunity to consider the implications of the draft budget for the service areas within their remit over the next few weeks. The Committees will then be able to provide feedback to the Cabinet for consideration before the final MTFS, 2025-26 budget and 2025-30 capital programme are presented to Full Council for approval on the 20<sup>th</sup> February 2025.

### **Financial Resource Model**

- 3.56 The MTFS includes a Finance Resource Model (FRM) which provides a financial plan for the forthcoming five financial years. This is provided at Appendix B.
- 3.57 The Welsh Government has been provided with a one-year settlement and their Draft Budget therefore outlines spending plans for one year only. They are expecting multi year settlements for resource and capital at the conclusion of the UK Spending Review in the first half of 2025 which will provide much needed certainty for the Welsh Government and partners.
- 3.58 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.
- 3.59 We have again drawn on the work undertaken by Wales Fiscal Analysis (WFA). WFA is a research body within Cardiff University's Wales Governance Centre that undertakes authoritative and independent research into the public finances, taxation, and public expenditures of Wales.
- 3.60 Guto Ifan of the WFA has provided his analysis of the Draft Budget for 2025-26 which can be seen on his blogpost "Making sense of the Welsh Government's Draft Budget for 2025-26", 11 December 2024.
- 3.61 He concludes that "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."

- 3.62 On this basis our modelling continues to be predicated on funding scenarios that look at a range of settlement predictions from best case to worse case. Flat cash or even negative settlements of -2%.
- 3.63 Other assumptions about cost drivers such as pay and price inflation, demographic and other service change, together with early estimates for cost reductions delivered through our transformational activity are also included. Recurrent future year cost reductions of £12.3 million are already identified and included. All the scenarios include an annual Council Tax increase with 8.9% included for 2025-26 and 5% per annum increases from 2026-27 onwards.
- 3.64 Table 4 below sets out the gap between the Council's net budget requirement and the possible funding available until 2029-30 based on the expected funding as set out in the MTFs. An overall gap of £39.1 million is shown and this will need to be addressed through realigning budgets to match the funding available.

**Table 4**

	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	
<b>GAP - each year</b>	<b>24,151</b>	<b>23,275</b>	<b>16,901</b>	<b>17,427</b>	<b>20,882</b>	
<b>Additional Funding</b>						
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	
<b>Net Gap - Each Year</b>	<b>0</b>	<b>13,868</b>	<b>7,210</b>	<b>7,434</b>	<b>10,568</b>	<b>39,080</b>

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

- 3.65 Our work through Sustainable Powys has gained momentum over the last year. As this work progresses, proposals will be developed for consideration before inclusion in our budget plan. Where proposals can deliver earlier savings and where no policy decision is required and there is no impact on our residents, they will be implemented as soon as possible.
- 3.66 Significant uncertainty remains reflecting the continued economic volatility. It is in this environment that the setting of a robust base budget based on sound assumptions is fundamental, together with an assessment of the risk that remains. The inclusion of an annual "risk budget" and the holding of sufficient reserves ensures that the Council can effectively manage this risk and maintain financial stability.

### **Levies for Mid and West Wales Fire Authority and the Bannau Brecheiniog National Park**

- 3.67 The Council is required to provide funding to support both the Mid and West Wales Fire Authority (MAWWFRA) and the Bannau Brecheiniog National Park via a levy.
- 3.68 Under the provisions of paragraph 21.2 in part IV of the Mid and West Wales Fire Services (Combination Scheme) Order 1995, as amended, the Fire and Rescue Authority is required, before the 31<sup>st</sup> December in any year, to submit to each constituent authority an estimate of its expenses for the next financial year. Accordingly, the Chief Fire Officer has served formal notice that the estimated Net revenue budget requirement for the Mid and West Wales Fire and Rescue Authority for the 2025-26 financial year is £10,739,875, an increase of 5.59%.

- 3.69 Pay awards, changes to National Insurance and the employer Pension contribution rates for Fire Fighters has increased costs for the Fire Authority. These costs are reflected in the increased levy falling on the Council.
- 3.70 As set out in paragraph 3.14.1 the changes to the SCAPE rate for Fire fighters pensions was funded in 2024-25 through a specific grant for the fire service at £3m. The allocation for Powys is £163,000 which has been baselined in the Council's settlement in 2025-26 to support these additional costs. In addition as detailed in paragraph 3.14.3 funding of £39,000 has also been included in the settlement for fire services pay pressures.
- 3.71 The budget requirement is levied across the 6 constituent Local Authorities based on population. An increase in the population dataset see Powys proportionally facing a small percentage increase in its share of the levy. The final amount for Powys will be confirmed at a meeting of the Fire Authority on the 10<sup>th</sup> February, 2025.
- 3.72 The Councils budget therefore includes an estimated increase of £508,568 (5%) from that provided in 2024-25. This amount is funded in part through the local government settlement with the remainder being met from Council Tax. The funding from WG for the increase in the Employers NI will be allocated when received.
- 3.73 The levy for the Bannau Brecheiniog National Park is estimated at £681,290.

### **2025-26 Net Budget Requirement**

- 3.74 The net budget requirement is the amount of budget the Council requires to fulfil its functions. It is calculated taking the output of each of the service integrated business plans; these identify the resource requirements for each service to deliver their statutory functions, the Corporate Strategic and Equality Plan and service improvement objectives offset by Sustainable Powys and other budget reduction proposals.
- 3.75 The tables below set out the changes reflected in the budget proposal, the additional resources required, the available funding resources and the strategy being proposed to close the budget gap.

<b>Resources Required for 2025-26</b>	<b>£'000</b>	<b>£'000</b>
Opening Base Budget		341,626
Pay Inflation	7,356	
Non pay Inflation	854	
Capital Financing and Levies	3,168	
Demographic Pressures and Growth	8,437	
Schools Pressures	3,743	
Contracts, RLW Pressures	7,760	
Grants Transferring In	766	
Other	4,354	
<b>Growth and Pressures</b>	<b>36,438</b>	
<b>Resources Required Total</b>		<b>378,064</b>

Resources Available	£'000	£'000
Aggregate External Finance	250,184	
Council Tax - base 2024-25	105,760	
<b>Resources Available Total</b>		<b>355,944</b>

3.76 The difference between resources required and resources available is £22.1 million. The strategy to close this gap aligns with the Sustainable Powys principles as set out in 3.48 above and are categorised as follows:

Delivering the Budget Gap	£'000	£'000
8.9% Council Tax increase + base increase		9,833
<b>Savings linked to:</b>		
Budget Efficiencies	1,331	
Improved Contract Management	2,923	
Increased Income	5,718	
Workforce Changes	1,985	
Transformational Improvements	330	
<b>Total Savings</b>		<b>12,287</b>
<b>Funding to Bridge the Gap</b>		<b>22,120</b>

3.77 Table 5 below sets out the proposed draft net budget for 2025-26 at £365.778 million, including the Delegated Schools' Budget.

**Table 5: 2025-26 Draft Revenue Budget**

£'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%
<b>Total</b>	<b>341,626</b>	<b>854</b>	<b>6,502</b>	<b>854</b>	<b>766</b>	<b>1,695</b>	<b>22,454</b>	<b>-12,287</b>	<b>713</b>	<b>2,602</b>	<b>365,778</b>	<b>24,151</b>	<b>7.1%</b>

3.78 Table 5 shows the Council's 2024-25 base budget and proposed changes across each service to provide a base budget for 2025-26.

3.79 Inflationary Pressures and additional services cost pressures of £36.4 million as detailed in Appendix F include:-

- Pay Awards for Council staff (excluding schools) set nationally – £0.2 million to baseline the 2024/25 pay award and a further £3.7 Million projected for 2025/26 awards (excluding schools);
- Non-pay general inflation £0.8 million;
- Uplift for Pay and Non-Pay pressures across schools including changes to pupil numbers - £7.4 million;



- Demographic changes, contractual obligations, Real Living Wage commitment and Service Demand across Adult Social Care - £13.6 million;
- Service Demand pressures across Children Services - £1.8 million
- Housing pressures of £1.1 million relate to transfers of grant into the settlement to meet the Welsh Governments “No one left out” policy and increasing demand for homelessness services
- Other key pressures across HTR & Education - £2.6 million
- Corporate Pressures – Apprenticeship, Fire and National Park levy £0.6 million and Council Tax Reduction scheme - £1.1 million. Capital Financing costs £2.6 Million.

- 3.80 Schools across Powys continue to face significant financial pressure through Pay, Pension and other costs. Cabinet confirmed the level of funding to be allocated to schools for 2025-26 on the 17<sup>th</sup> December, 2024. The budget proposal includes additional funding of £7.4 million (8.3%) directly into schools delegated budgets and £0.789 million (4.4%) for Education. The funding of schools and education is above the level of increase received by the Council in AEF, and reflects the priority Education has from the Council, it provides the funding required to fully support the Schools Funding Formula ensuring that all schools receive sufficient funding to resource an appropriate educational provision to meet the obligations of the national curriculum. Governing Bodies, like other council services, will need to consider how they manage these resources and deliver a budget that complies with the scheme for the financing of schools. In addition to the funding provided by the Council, schools will again receive specific WG grant funding as set out in paragraphs 3.20 of the report.
- 3.81 The impact of the changes to employers National Insurance contributions amount to approximately £3.5 million across the Council. 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. This funding has not yet been provided to the Welsh Government and so does not form part of their Draft Budget or the Local Government settlement. The budget proposal includes these costs across all service allocations and to support these costs we have assumed additional funding will be provided in the new financial year. The risk that this funding will not be provided or is not sufficient is assessed as part of the overall budget assessment.
- 3.82 The level of increased funding required across the Council’s services cannot be fully supported by Welsh Government funding and increases in Council Tax and in order to bridge the gap in the budget for 2025-26 significant cost reductions and savings have had to be considered.
- 3.83 The budget plan includes proposals to remove £12.3 million from the revenue budget next year, each proposal is provided at Appendix C. These reductions have focused on delivering services that are more efficient or that can be delivered at a reduced cost, alternative sources of income and increased fees and charges have also been implemented. Limiting the impact on the delivery of front-line services as much as possible within the financial constraints.

- 3.84 The third year of the phased reduction in the employers Pension contributions, following the triennial actuarial review of the Powys Pension Fund from April 2023, estimated at £350,000 will further reduce costs.
- 3.85 Inevitably there will be some reductions in service, or changes to how or from where services are delivered. Some staffing reductions will have to be made, removing vacant posts where appropriate but some redundancies are also planned.
- 3.86 The impact of the proposals has been carefully considered to fully understand the impact on residents and service users and to assess the impact on future generations in line with the duties aligned to the Well-being of Future Generations (Wales) Act 2015. The impact of the budget has been assessed in an overarching Impact Assessment, but where proposals have a more specific impact on residents or service users separate individual Impact Assessments are provided, details are attached in Appendix I.
- 3.87 Delivery of these cost reductions will be essential to deliver a balanced budget. Assurance must be provided to Council that the budget is robust and that the reductions included in it are deliverable. This will also enable the Council and the Statutory Chief Finance Officer (S151) to sign off the budget with confidence. For the proposed budget, sessions have been held with officers to challenge and test both the service pressures being submitted and the deliverability of each proposal presented. CLT has provided assurance to Cabinet that they can deliver the cost reductions within the required timescales, whilst also reflecting on any risks.
- 3.88 The revenue budget has included a “risk budget” for a number of years to assist in managing the risk around the delivery of cost reductions or additional service pressures that arise, this is assessed alongside the level of reserves that are held. Due to the ongoing uncertainty and volatility being experienced it is proposed to maintain this budget at £3 million for 2025-26.

### **Financing the Draft Net Budget for 2025-26**

- 3.89 The Council’s gross budget reflects the totality of the Council’s costs including salaries and wages, the purchase of goods and services, premises costs and the revenue cost of financing our capital programme. The gross budget is financed by all the Council’s income sources including AEF, council tax, fees and charges, specific grants and contributions from other bodies.
- 3.90 Income from fees and charges makes a significant contribution (c£80 million per annum) to the Council’s budget and the Council’s approach to income generation is included in the MTFS.
- 3.91 The budget proposed for 2025-26 includes increasing of fees and charges in line with inflation, where permitted, and where appropriate, the principle of full cost recovery has been applied. The Fees and Charges register has been updated and it, together with an explanatory note, is attached as Appendix D and E.
- 3.92 The financing of the net budget comes from the Welsh Government settlement and Council Tax income. Table 6 summarises the 2025-26 budget requirement and how it will be financed and shows that Council Tax funds 30% of the Councils’ net budget.

**Table 6**

	2024/25	2025/26	Change
	£'000s	£'000s	£'000s
AEF (RSG and NNDR Allocation)	235,865	250,184	14,319
Council Tax	105,761	115,594	9,833
<b>Total Funding</b>	<b>341,626</b>	<b>365,778</b>	<b>24,151</b>

- 3.93 As can be seen, the balancing of the Council's 2025-26 budget is dependent upon a 8.9% increase in the Council Tax in 2025-26, generating £9.8 Million including a small increase in the council tax base. In proposing this increase, there has been careful consideration to affordability for Powys residents in light of the cost-of-living crisis, together with the ongoing need to meet increasing demand and inescapable cost pressures on vital local services upon which they rely.
- 3.94 The setting of Council Tax is not subject to approval as part of this report, as this is a matter for Full Council determination. However, the report recommends the level of Council Tax to be included in the budget that goes to Council on 20<sup>th</sup> February 2025. On 6<sup>th</sup> March 2025 Council meets to set the Council Tax in line with the final budget. This meeting does not reopen the budget but ensures the Council sets Council Tax for billing purposes.

### **Draft Capital Programme 2025-30**

- 3.95 The Capital and Treasury Management Strategies are fundamental to the effective delivery of the Council's priorities and the Corporate and Strategic Equality Plan. The provision of the right assets in the right place at the right time will ensure the effective and efficient delivery of a comprehensive range of quality services.
- 3.96 The draft strategy document at Appendix H provides a high-level, long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, whilst considering the risks how these will be managed and the implications for future financial sustainability.
- 3.97 Capital schemes across the Council continue to be impacted by rising costs as materials and contractor costs increase. The cost of borrowing has also become more expensive as interest rates rise.
- 3.98 Maintaining the capital programme has a significant regeneration impact for the economy of Powys alongside the direct effect of better infrastructure to deliver services. Capital investment also has a significant input into the delivery of revenue cost reductions, and it is essential that both budget strategies are developed in tandem.
- 3.99 Broadly, the programme covers three areas of expenditure. These are:
- A core programme of schemes that are regulatory / statutory in nature, and minimise legal challenge or revenue risk, these schemes are related to day-to-day activities that will ensure the Council meets its statutory requirements;
  - A programme to achieve a Sustainable and well-maintained asset base;

- A programme that prioritises investment to support key Council priorities and delivery of corporate objectives in line with Sustainable Powys.

3.100 The key aims of the Capital Strategy are to:

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

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

3.102 The Capital Programme is supported financially from a number of sources and this is detailed in the Strategy. In order to minimise costs against the Councils revenue budget the programme will be supported by other sources of funding before incurring borrowing. Capital receipts are an important means of increasing the affordability of the Capital Programme. The generation of capital receipts is also consistent with the need to accelerate a reduction in the Council's asset base where this can support savings requirements or reduce maintenance liabilities and the carbon output of the Council. Accordingly, the target figure to achieve in capital receipts each year is maintained at £10 million to support our Capital Strategy. The release of assets will be delivered through the review and rationalisation of our assets as we prioritise our property estate to deliver the Sustainable Council for the future.

- 3.103 The Council has moved away from an annual capital cycle and using the new framework will have an ongoing process of projects in development through to approval at Cabinet and Council as needed.
- 3.104 The Capital Strategy is attached as Appendix H. The strategy sets out the priorities for the next 5 years with the provisional Capital Programme totalling £609 million (including the Housing Revenue Account (HRA)). This is a significant commitment. The Capital Programme is included in Appendix H as part of the Capital Strategy.
- 3.105 The Capital Programme also identifies £71 million over the next five years of unallocated investment which has been set aside to meet the costs of current pipeline projects and programmes currently being progressed through the Outline Business Case gateway. Also included is initial estimated funding for the Mid Wales Growth Deal.
- 3.106 The Capital Strategy for future years will need further development and the Capital Programme will be reviewed and reconsidered to ensure that the revenue implications of capital expenditure is accurately reflected in the FRM and that the capital expenditure plans of the Council remain affordable, prudent and sustainable.

### **Draft Treasury Management Strategy**

- 3.107 A draft Treasury Management Strategy which is included within the attached Appendix H sets out how the Council will ensure that it has enough funding available to fund its revenue and capital requirements and an appropriate strategy for borrowing and investing for the financial year 2025-26 and details the expected activities of the Treasury function. The Treasury Management Strategy and Annual Investment Strategy is recommended to Full Council for approval in February.

### **Prudential Indicators**

- 3.108 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the local authority are affordable, prudent and sustainable. The statutory Prudential Indicators are shown in full within the Capital and Treasury Management Strategy Appendix H. The tables include the revised estimate for 2024-25, as well as the indicators through to 2029-30.
- 3.109 The key indicator of affordability is the estimate of the ratio of financing costs to net revenue stream, in section 3.17 of Appendix H. The ratio of financing costs for the Council fund is 4.0% in 2024-25, peaking at 5.2% in 2029-30. The amount of HRA income required to pay for financing increases is 17.7% in 2024-25 rising to 29.3% in 2029-30.
- 3.110 The Capital Financing Requirement (CFR) is shown at section 2.38 of the Appendix H and is the measure of the authority's underlying need to borrow for a capital purpose. It is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue. The CFR is estimated to be £333 million in 2024-25 and will rise to £446 million by the end of 2029-30, and £117 million increasing to £264 million for HRA debt.
- 3.111 The operational boundary, in Appendix H section 3.28, and authorised limits for external debt in section 3.31 both reflect the Treasury Management policy and are set at a level to be affordable and prudent.

- 3.112 The authorised limit for 2025-26 will be the statutory limit under Section 3(1) of the Local Government Act 2003. It is recommended that the level for the authorised limit is set at £500 million and the Operational Boundary is set at £486 million.
- 3.113 The Minimum Revenue Provision (MRP) Policy Statement is included at Section 2.45 in Appendix H.
- 3.114 MRP is an annual charge that Councils are required to pay for their debt liability in respect of capital expenditure funded by borrowing, for both the general fund and the Housing Revenue Account debt. This capital expenditure is set out as part of the CFR calculation and updated regularly to reflect borrowing need changes and the resultant costs; it is important to ensure that the debt is repaid over a period commensurate with that over which the capital expenditure provides benefit.
- 3.115 MRP Overpayments - A change introduced by the revised Welsh Government MRP Guidance was the allowance that any charges made over the statutory MRP, voluntary revenue provision (VRP) or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. On the 31<sup>st</sup> March 2024 the total balance of previous voluntary revenue provision (VRP) stands at £7.11 million, of which £1.41 million relates to the HRA. There is no intention to reclaim any of this at this point. Holding this provision is prudent and increases the resilience in the financing of the Capital Programme, particularly in the current period of uncertainty and volatility.

## **Reserves**

- 3.116 The Council's reserves are key to our financial planning; maintaining these at an appropriate level is central to our financial resilience and sustainability. They provide a safeguard against risk, unusual events and future financial pressures.
- 3.117 In assessing the appropriate level of reserves, the Authority will ensure that the reserves are not only adequate, but also necessary and will be appropriate for the risk (both internal and external) to which it is exposed.
- 3.118 The holding of reserves has been critical to managing our budget this year faced with the unprecedented rise in inflation and the impact this has had on the Council's budget. This has reiterated the need to hold sufficient reserves to provide the financial resilience the Council needs.
- 3.119 The Reserves Policy (Appendix G) establishes a framework within which decisions are made regarding the level of reserves held by the Council and the purposes for which they will be maintained and used.
- 3.120 The use of reserves and the levels at which they are maintained is determined on an annual basis as part of the Council's Budget setting process.
- 3.121 There is no statutory minimum regarding the level of reserves that should be held. Instead, decisions should reflect the individual position of each council. Reserves are a finite resource and so their use to fund ongoing commitments creates a gap in the finances of future years and erodes our financial sustainability. Benchmarking shows

that Powys' reserves are not excessive but are nearer the minimum level of acceptability; we must not plan our budget based on utilising our reserves, they must remain at a level that provides a reasonable level of financial resilience in an ever-challenging environment.

3.122 The level of reserves held, and their forecast use is reported to Cabinet as part of the budget monitoring report and Table 7 below reports the opening and projected balance of the reserves at year end. This is based on the position as at 30<sup>th</sup> September 2024.

**Table 7 – Reserves as at 30<sup>th</sup> 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 / (Deficit)
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
<b>Total Useable Reserves</b>	<b>57,249</b>	<b>(7,346)</b>	<b>(141)</b>	<b>49,762</b>
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
<b>Total Revenue Reserves</b>	<b>61,551</b>	<b>(10,639)</b>	<b>(268)</b>	<b>50,645</b>
Revenue Grants Unapplied	11,608	(11,260)	0	348
<b>Total</b>	<b>73,160</b>	<b>(21,899)</b>	<b>(268)</b>	<b>50,993</b>

3.123 MTFS Principle 6 is to maintain a minimum general reserve provision of 4% of net revenue expenditure over the period of 2025-30. The projected balance as at 31<sup>st</sup> March 2025 will be 3.7% based on the proposed budget. For 2025-26 to keep a 4% level of general reserve provision a further contribution to the reserve of £0.7 million will be required, this will be reviewed in the final quarter of the current year and funding identified as a rationalisation of specific reserves takes place.

3.124 The level of reserves held has been assessed alongside the overall budget proposal.

3.125 Over the last couple of years a number of specific reserves were created due to the emerging financial pressures as inflationary pressures began to take hold, this strategy increased our financial resilience as we moved into an unprecedented period of volatility. At this stage £22.167 million of reserves is forecast to be relied upon to support the budget in the current financial year.

3.126 Schools have drawn upon their reserves in recent years to meet the additional costs they too have faced. These reserves have now been depleted for some schools reducing their resilience to manage the ongoing cost pressures. Governing Bodies

will have to make difficult decisions to realign their budgets and reduce spend to balance their in-year positions.

- 3.127 The financial position of some of our schools has been a concern for several years, but progress continues in strengthening financial management arrangements. The “Team around the School” approach, supportive guidance, additional training and the appropriate use of warning notices, recovery planning and removal of financial delegation have all strengthened financial management at schools causing most concern. This support will again be crucial to support our schools as they manage the increased costs of running their schools. The school reserves are ring fenced but ultimately represent a potential Council risk. It is essential that this compliance work continues to be undertaken to ensure that school budgets are managed in accordance with regulations by Governing Bodies.
- 3.128 In the context of the need to maintain financial stability and flexibility moving forward on the advice of the Section 151 Officer, it is Cabinet’s intention not to make any use of the General Reserve to fund the 2025-26 Budget.
- 3.129 The use of the Councils reserves will continually be reviewed, particularly considering the continued uncertainty arising from the ongoing economic volatility. The reserves position will be monitored carefully as the financial year progresses. Under Section 26 of the 2003 Local Government Act, an appropriate person (S151 Officer) must determine the minimum amount of General Fund Reserve.

### **Impact Assessment**

- 3.130 The Well-being of Future Generations Act (Wales) Act 2015 requires Local Authorities to apply the five ways of working to their financial planning to ensure that short term priorities and administrative process do not overtake longer term interests. The Act requires that the Council takes every reasonable step to meet the wellbeing objectives and act in accordance with the sustainable development principle.
- 3.131 Integrated Impact Assessments have been undertaken for service cost reduction proposals which impact on the service delivered for our residents and are attached at Appendix I. An impact Assessment for the whole 2025-26 budget has also been completed and includes the impact of those savings that can be achieved without an impact on residents and communities. They will be scrutinised as part of the budget process.

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

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



- 4.3 The draft budget has been produced within the framework of the draft MTFs. The continued use of scenario planning has ensured that the budget is developed in a prudent and flexible way, highlighting the risk faced by the Council as a result of changes in funding and increasing financial pressures, and offering some choice in how our resources are prioritised and the risk mitigated.
- 4.4 Service Integrated Business Plans ensure that all elements of delivering the service are considered in a holistic way. Statutory obligations, pay and price pressures, income streams, demographic changes and the impact on service demand, new responsibilities and changes in regulation are all considered. Services assess options for service delivery, their workforce and capital requirements and the cost reductions that can be achieved in submitting their calculated budget requirement. The impact and risk associated with their proposals is explained.
- 4.5 The Council's MTFs guides the development of these plans, and the 2025-26 implications are set out in the draft budget and draft 2025-30 Capital Programme. A process of challenge and review undertaken with Cabinet, each Head of Service, and the Corporate Leadership Team provided assurance on the completeness and robustness of the estimates, whilst highlighting the risks associated with its deliverability.
- 4.6 This strategic approach to allocating resources ensures that our financial plans consider the delivery of the Corporate Strategic and Equalities Plan, the transformation programmes we need to deliver and ensures that service improvement and appropriate levels of statutory provision are all included. Revenue and Capital budgets are aligned and ensure that our limited resources are prioritised to achieve maximum effectiveness in securing outcomes.
- 4.7 The significant impact of continued inflation, rising costs and additional service pressures have all added substantial financial pressure to the Council's budget. The funding settlement the Council has received this year is improved from that which was estimated, however the cumulative effect of increasing costs far outweighs the additional funding provided creating an even greater challenge in maintaining financial stability. In order to meet the statutory responsibility to set a balanced budget the proposal again includes a further significant level of cost reduction for 2025-26. Against that background, the draft budget continues to include a risk management allocation and the removal of prior years' unachievable savings adds resilience and robustness to our budget plan.
- 4.8 The need to hold an appropriate level of Reserves has been brought to the fore over the last few years and with continued economic uncertainty our reserves remain crucial to our financial stability. The position going forward will require reserves to be maintained at a prudent level. The minimum level of General Fund Reserve remains at 4% of the Net revenue budget. On this basis the level of revenue reserves held, together with the revenue Risk budget in place, is appropriate to deal with known and unknown risks.
- 4.9 The financial position of many of our schools continues to be impacted by rising costs and reducing funding in response to both pupil number reductions and limited funding settlements. Governing Bodies have drawn significantly on their ringfenced reserves to manage their budgets during 2023-24 and 2024-25.

- 4.10 The budget plan proposed sees significant additional funding allocated to schools delegated budgets for 2025-26. This funding exceeds the level of increase seen in the councils overall funding and will support schools in meeting the increased costs for teachers and non-teaching staff pay, and increased employers contributions for teachers' pensions. But falling pupil numbers and deficit recovery plans will require Governing Bodies to make changes and cost reductions to actively managing their budgets and deliver within the funding provided. The support provided by the "Team around the School" approach will be vital to assist Governing Bodies in addressing this challenge and it is essential that compliance work continues to address the deficit balances held.
- 4.11 Many schools have already acted and are delivering on their financial responsibilities, but schools that have not strengthened this approach face an even greater challenge. To realign their budgets in this current environment will mean significant reductions across school budgets. The Transforming Education programme will enable the Council to realign limited resources to improve provision. But we continue to question whether the pace of change can keep up with the financial challenge. Borrowing costs to finance the Council's element of the Sustainable Communities for Learning programme will limit the Councils ability to deliver schemes collectively, inevitably delaying progress and pushing schemes into future years. Welsh Government, Estyn, Councils and Governing Bodies must all work in partnership to support the solutions needed for our learners.
- 4.12 The Capital Strategy contained within this report sets out the current investment plans across council assets and the funding arrangements that are in place. The Capital Programme captures the schemes already approved and includes indicative estimates as programmes develop. Rising project costs and increased borrowing rates add pressure on the programme. Maintaining a Capital Strategy that is affordable, prudent and sustainable is supported by a strong governance framework, the approach to rationalise our estate, prioritise investment and seek alternative sources of funding before increasing borrowing. The target for Capital Receipts generated is a key element.
- 4.13 Any additional schemes are subject to robust business cases and are set in the context of overall affordability regarding our Prudential Indicators. Regular reporting of performance against these indicators confirms that the current and planned programme continues to operate within the limits set. Clearly, this position will be kept under constant review, where the later years of the programme are refined as further information becomes available.
- 4.14 Our MRP policy provides an opportunity to plan for the future to support key transformational activity across Schools and other Council Services, this remains a key element of our capital financing strategy and will limit the impact on future revenue budgets supporting the council's financial resilience.
- 4.15 The Council has an established budget monitoring and internal control environment and these act as an effective early warning system in identifying potential problems and for managing potential areas of risk. This ongoing regular review highlights problems and risks early so that corrective action can be put in place, and this is supported by a clear virement process which provides some flexibility to adapt expenditure patterns to meet changing needs and objectives.

- 4.16 The Councils financial management arrangements are clearly defined within the Constitution. Senior Leadership Team oversight and quarterly reporting together with Internal Audit reviews and Scrutiny Committee challenge ensures that officers across the Council are held accountable for the expenditure headings that they are responsible for. Additional training, delivery of audit recommendations and further development of financial and performance benchmarking data will strengthen these arrangements.
- 4.17 Medium to longer term financial management is one of the standards of CIPFA's Financial Management Code. The medium-term financial plan is a key element of this, being integrated with the Council's service plans and its capital strategy. The Council will continue to comply with the Code in respect of its principles of Leadership, Accountability, Transparency, Standards, Assurance and Sustainability.
- 4.18 The updated MTFs ensures that the Council understands the impact of the economic climate and considers the financial pressures this brings to our financial planning. Updating the assumptions in response to the changing environment and modelling different funding scenarios helps us plan in a more resilient way.
- 4.19 The Provisional Settlement provides the Council with an additional £7.9 million of funding for 2025-26, in addition to the base adjustments relating to 2024-25. This is welcomed and will go some way to help fund the continued significant pressures we face whilst the proposed increase in Council Tax will help mitigate the position. Current UK Government spending plans, indicate that increases to public services spending over the medium term are expected to be much lower and further tightening beyond 2025-26 implies a difficult Spending Review to be published in the summer.
- 4.20 Next year's budget round promises to be more difficult, the programme of change to deliver "Sustainable Powys" is critical to ensure that the Council can remain financially stable and provide sustainable services in the long-term. Across Wales, Councils are taking the learning from authorities in England that have faced financial failure. Recognising and accepting the reality of the situation, having honest discussions and being pro-active, innovative and forward-thinking will enable the Council to deliver effective public services for the future. Council will need to be decisive and bold and work in partnership with other partners and our communities to deliver outcomes for Powys Residents.
- 4.21 Taking all the above into account, the Section 151 Officer concludes the estimates used in the budget proposal for 2025-26 are adequately robust but a heightened level of risk remains. Based on the assessment of reserves, the overall level is adequate but remains at the lower end of acceptability given the ongoing economic challenge and the scale of savings required and the financial uncertainty facing the Council over the medium term.

## **5 Legal Implications**

- 5.1 The Head of Legal Services (Monitoring Officer) has commented as follows:
- 5.2 The Report has been prepared in accordance with the requirements of the Local Government Act 2003 and the Local Government Finance Act 1992. In accordance

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

## **6 Members' Interests**

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

## **7. Climate Change & Nature Implications**

- 7.1 We must consider how Sustainable Powys can be delivered whilst addressing the Climate and Nature emergencies. This aligns with the ambition under “Greener” that “our response to the climate and biodiversity emergencies is at the heart of everything we do”.
- 7.2 The Council has declared both a climate and nature emergency. Nature and climate are linked and if we are to tackle climate change we need biodiverse habitats, species and landscapes so nature can adapt more easily to a changing climate. We also need to tackle climate change in order that our natural world has a better chance of surviving. Significant investment in our asset base is required to deliver on the ambition to reduce carbon emissions to net zero in line with the Welsh public sector target of 2030. This cannot be achieved without making changes to what assets we hold, identifying what we need in the future, and balancing the need for sustainability against affordability within the public purse.
- 7.3 Sustainable Powys is the mechanism that will drive forward the Stronger Fairer Greener agenda over the next five years, our Financial Planning covers both the need for capital investment in our assets and identifies asset disposals that release capital receipts to fund the capital investment.
- 7.4 The changes required to our assets are unachievable without other forms of investment. Grant opportunities will form part of the funding, we will also consider alternative sources of green financing in order to adapt our infrastructure and services.

## **8. Data Protection**

There are no new data protection implications within the budget proposals.

## **9. Comment from local member(s)**

This report relates to all service areas across the whole County. This report presents the detailed draft budget for 2025-26 and each of the Council’s Scrutiny Committees will have the opportunity to consider the implications of the draft budget for the service areas within their remit over the next few weeks. The Committees will then be able to provide feedback to the Cabinet for consideration before the final MTFs, 2025-26 budget and 2025-30 capital programme are presented to full Council for approval on the 20th February 2025.

## 10. Recommendations

That Cabinet approves:-

- 1 The draft Medium Term Financial Strategy for 2025-2030 as set out in Appendix A to the report be agreed in principle.
- 2 The Draft Revenue Budget for 2025-26 with the inclusion of a 8.9% increase in Council Tax in 2025-26 shown in the Financial Resource Model in Appendix B and Table 4 of this report.
- 3 The Draft Fees and Charges Register in Appendices D and E.
- 4 The Draft Capital Strategy and Capital Programme for 2025-30 shown in Appendix H.
- 5 The Draft Minimum Revenue Provision Statement as set out on Appendix H.
- 6 The Draft Treasury Management Strategy and the Annual Investment Strategy in Appendix H.
- 7 The authorised borrowing limit for 2025-26 as required under section 3(1) of the Local Government Act 2003 is set at £500 million and the Operational Boundary is set at £486 million as set out in section 3.112 of this report.
- 8 The Prudential Indicators for 2025-26 as set out in section 3.108 to 3.115 of the report and Appendix H.

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Head of Service:	Anne Phillips, Interim Head of Finance
Corporate Director:	Jane Thomas, Director of Corporate Services

### **Background Papers used to prepare Report:**

Provisional Welsh Government Local Government Settlement 2025-26  
Welsh Government Draft Budget 2025-26 - A Budget for a Brighter Future. December 2024  
WLGA - Welsh Government Draft Budget and Provisional LGF Settlement 2025-26  
Wales Fiscal Analysis Blog "Making sense of the Welsh Government's Draft Budget for 2025-26", 11 December 2024.  
Office for Budget Responsibility : Economic and Fiscal Outlook October 2024

### **List of Documents**

Appendix A Medium Term Financial Strategy  
Appendix B Financial Resource Model  
Appendix C Cost Reductions Proposals  
Appendix D Fees and Charges Report  
Appendix E Fees and Charges Register  
Appendix F Council Pressures  
Appendix G Reserves Policy  
Appendix H Capital & Treasury Management Strategy  
Appendix I Impact Assessments