CYNGOR SIR *POWYS* COUNTY COUNCIL.

28th February 2020

REPORT AUTHOR:	**County Councillor Aled Davies** **Portfolio Holder for Finance**
SUBJECT:	**Medium-Term Financial Strategy 2020-2025 and 2020-21 Budget and Capital Programme for 2020-2030**
REPORT FOR:	**Decision**

1. Purpose

1.1 To seek Council's approval of the Medium-Term Financial Strategy for 2020-25, which includes a Financial Resource Model for 2020-25, a draft revenue budget for 2020-21 and a capital programme for 2020-21 to 2029-30.

2. Background

2.2 Like other councils across Wales, Powys County Council continues to face significant challenges arising from demographic changes, increase service demands, citizen expectations and rising costs. Against that background, over the past twelve months the Cabinet and Executive Management Team (EMT) have placed a greater focus on longer term financial, service and workforce planning to help provide sustainable solutions to the challenges we continue to face.

2.3 Vision 2025, the Council's Corporate Improvement Plan and the Medium-Term Financial Strategy (MTFS) identify the Council's service and resource priorities for the next five financial years, with a focus on 2020-21.

2.4 The Vision 2025 Plan is reviewed annually to ensure that it continues to reflect the Council's operating environment and priorities and the 2020-25 Plan will be presented to Council for approval alongside the budget on 28 February. This will ensure the Corporate Plan and MTFS are aligned, enabling the reader to make explicit links between the Council's priorities and the resources directed to support them.

2.5 The Council's MTFS is set within the context of UK economic and public expenditure plans, Welsh Government priorities and legislative programme. It articulates how the Council plans to use its resources (revenue and capital) to support the achievement of its corporate priorities as well as the management of its statutory and core duties, known pressures and risks. The MTFS helps the Council to work more effectively with partners in other sectors and provides a strategy for the use of reserves to meet changes in resources, risks or unforeseen demands from year to year without impacting unduly on services or council taxpayers.

2.6 The MTFS includes the:

- principles that will govern the strategy and a five-year Financial Resource Model (FRM), comprising detailed proposals for 2020-21 and outline proposals for 2021-22 to 2024-25.
- Capital Financing Strategy and the Treasury Management Strategy; and
- Capital Programme for 2020-21 to 2029-30

2.7 The Cabinet and EMT have developed the MTFS to guide the development of the proposed 2020-21 budget, the Financial Resource Model and the Capital Programme. At the same time as updating the MTFS, the Council is legally required under the Local Government Act 2003 to set a balanced budget for the forthcoming financial year by 11 March each year.

2.8 The Welsh Government is due to publish the final local government settlement on 25 February so if there are any late changes these would need to be made on 28 February in the Chamber.

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). The settlement for 2020-21 represents the biggest funding growth in a single year for Welsh local authorities in over a decade with a total increase of £184.3 million (5.6%) compared to 2019-20. Including specific grants, total support for local authorities will increase by 1.8% in real terms from 2019-20.

3.2 The 2020-21 provisional settlement gave Powys Council a cash increase of £9.5 million (5.4%) on 2019-20 which when adjusted for transfers into the formula of specific grants (schools' pay and pensions £2.06 million, and Funded Nursing Care £99,000) becomes 4.2% for Powys and 4.3% for Wales. The provisional settlement also includes funding to meet additional costs arising from the UK Government's changes to employer pension contributions for teachers as well as funding the full year impact of 2019-20 teachers' pay deal. The settlement letter stated that the future impact of the teachers' pay award which will come into effect from September 2020 was also recognised.

3.3 Welsh Government funding is allocated to unitary authorities using a formula 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, affects Powys' share of the overall funding available. The changes to the key indicators and our comparative position across Wales are shown in Table 1 below.

Table 1

Changes in Key Datasets	All Wales			Powys			
Dataset[1]	2019-20 Final	2020-21 Provisional	% Difference	2019-20 Final	2020-21 Provisional	% Difference	Rank
Population[2]	3,134,476	3,136,749	0.1%	131,721	132,084	0.3%	10
Pupil Numbers - Nursery and Primary	264,060	263,655	-0.2%	9,755	9,746	-0.1%	12
Pupil Numbers - Secondary in year groups 7-11	158,634	161,806	2.0%	6,297	6,306	0.1%	19
Free School Meals - Primary[3]	45,270	45,270	0.0%	1,034	1,034	0.0%	1
Free School Meals - Secondary[4]	26,400	26,400	0.0%	637	637	0.0%	1
Children in out of work families[5]	126,900	126,900	0.0%	2,900	2,900	0.0%	1
IS/ JSA/ PC/UC (not in employment) claimants - 18 to 64	80,657	79,026	-2.0%	1,605	1,480	-7.8%	18
IS/ JSA/ PC claimants - 65+	110,054	105,082	-4.5%	4,466	4,248	-4.9%	16
IS/ JSA/ PC/UC (not in employment) claimants - all ages	191,177	184,558	-3.5%	6,084	5,740	-5.7%	18
SDA/DLA/PIP claimants - 18 to 64	143,665	142,023	-1.1%	4,544	4,502	-0.9%	12

3.4 Overall Powys is ranked 14th of 22 councils in terms of its increase, Newport is highest at 5.4%, and Monmouthshire the lowest at 3%. This position represents a significant improvement for Powys compared to previous years when the Council has languished at the bottom of the funding table. It is particularly pleasing given the evidence of the costs of providing local services in Powys[1] which the Cabinet presented to the Welsh Government in September 2019.

3.5 Based on the provisional settlement Powys will receive £1,395 per head of population for 2020-21 compared to the Wales average of £1,426 per capita.

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

Revenue Settlement Implications for 2021-25

3.7 The Welsh Government has given no indication of the future allocations for 2021-22 onwards, but in view of current economic and fiscal projections and in the absence of other information the MTFS sets out a worst likely scenario predicated on an assumption that AEF will reduce by -2% for 2021-22, 2022-23, 2023-24 and 2024-25. Based on these assumptions the total recurrent reductions required from 2021-22 to 2024-25 amount to around £49 million.

Provisional Local Government Capital Settlement

3.8 The Welsh Government settlement includes a non-hypothecated general capital funding settlement, also calculated using a formula. The total provisional capital settlement for 2020-21 will be £198 million (including £20 million, across Wales, for public highways refurbishment grant) which is an increase of £15 million over that announced in the Final Budget last year. Welsh Government hopes that the additional funding will enable authorities to consider decarbonising.

[1] Rural Cost Analysis link (https://en.powys.gov.uk/article/7842/Funding-changes-needed)

3.9 For Powys County Council the provisional capital settlement provides the following increase on 2019-20:

- £25,000 as supported borrowing
- £233,000 as General Capital Grant

Final Local Government Settlement

3.10 Welsh Government will publish its Final Budget and Final Local Government Settlement for 2020-21 on 25 February 2020. A tabled update will be presented at Council. The Welsh Government has included the Council Tax base and other data changes in the provisional settlement and therefore it is unlikely that the settlement for Powys will change significantly, however, more information on 2020-21 specific grants will be provided at that time.

Current Year (2019-20) Financial Performance

3.11 The in-year financial position as at 31 January 2020 is shown in Table 2 below:

Table 2

Service Area £'000	Working Budget	Forecast Spend	Variance (Over) / Under Spend	Variance (Over) / Under Spend %
Adult Services	64,992	65,077	(85)	(0.1)
Children's Services	20,300	25,148	(4,848)	(23.9)
Commissioning	3,438	3,216	222	6.5
Education	21,988	21,971	17	0.1
Highways Transport & Recycling	29,075	31,137	(2,062)	(7.1)
Property, Planning & Public Protection	5,784	5,672	112	1.9
Housing & Community Development	8,939	9,144	(205)	(2.3)
Digital Services	4,963	4,686	277	5.6
Transformation & Communications	1,766	1,692	74	4.2
Workforce & OD	1,366	1,482	(116)	(8.5)
Legal & Democratic Services	3,165	3,025	140	4.4
Finance	19,648	13,180	6,468	32.9
Total	**185,424**	**185,430**	**(6)**	**(0.0)**
Housing Revenue Account (HRA)	0	(183)	183	
Schools Delegated	69,761	69,183	578	0.8

3.12 The overall projected position as at 31 January 2020 shown in the table above reports an overspend of £6,000 (excluding Schools Delegated and the Housing Revenue Account), however with further savings projected to be delivered in the last quarter the outturn position improves to an underspend of £650,000 comprising £5.8 million net over spend on service areas and £6.4 million under spend on corporate budgets. At this point in the financial year £5.4 million of budget

reduction proposals have been deemed to be unachievable in the current financial year.

Council's Improvement Journey

3.13 The Council has made significant steps on its improvement journey over the last eighteen months, following the Care Inspectorate Wales report on Children's Services and the Corporate Governance Review undertaken by Sean Harriss in 2018. Since then the Council has increased its focus on performance management and has established a Vision 2025 Transformation Programme which is driving delivery of the Councils Corporate Improvement Plan and improving the organisation's capability and financial resilience.

3.14 Twice in 2019-20 the Cabinet met Welsh Government Ministers and officials to make the case for additional funding for Powys County Council, recognising the additional costs associated with providing services in the biggest and most rural county in Wales. These discussions led to the Welsh Government making more than £900,000 available to the Council to support our Digital Powys Programme. The increase in the Council's revenue settlement was also welcomed by Cabinet in the context of their representations to Welsh Government.

3.15 The announcement made by the UK Government in Autumn 2019 that it has committed an initial investment of £55 million to the Mid Wales Growth Deal was another positive step forward for the Council. The Mid Wales Growth Deal led by Powys and Ceredigion County Councils and the private sector will support the transformation and growth of the Mid Wales economy through an integrated programme of interventions which aim to make the greatest difference to the region to be delivered over a 10-15 year period.

3.16 Over the last twelve months there has been a sustained improvement in Children's Services performance which has been recognised by the Improvement and Assurance Board. There is still more to do, including addressing some persistent recruitment difficulties and the Board and Cabinet recognise the need to set a realistic budget which supports Powys children who are currently in need and in our care while Children's Services implement new service models that will over the medium term reduce the number of Children Looked After and the costs associated with their care.

3.17 The Estyn Inspection of the Education Service in 2019 identified five key recommendations for the Council in respect of the quality of our education provision and financial sustainability and the Improvement and Assurance Board has extended its remit to support the Council in implementing these recommendations.

3.18 In terms of overall performance, using Public Accountability Measures, Powys Council's performance compares favourably with the other twenty-one authorities in Wales, ranking 5th for 2018-19. A greater focus on performance in 2019-20 has also seen the Council increase its performance in a number of areas including social care services and our corporate functions.

MTFS 2020-25

3.19 The MTFS for the next five years is attached at Appendix A, based on the latest information available from the Welsh Government. It does not include fixed funding,

expenditure or activity projections, but sets best, worst and most likely scenarios for the resources that will be available. The MTFS is reviewed regularly and will be amended as additional information becomes available, with the detail for future years being developed over the period of the strategy.

3.20 The development of the MTFS 2020-25 has been led by Cabinet and EMT and has taken into account the views of auditors and CIPFA on the Council's financial planning arrangements as well as budget issues arising in 2019-20, underpinned by the ongoing aim to embed a culture of integrated business planning over the medium term.

3.21 Implementation of the MTFS will continue to be led by Cabinet and Senior Leadership Team (SLT) [2], 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, the MTFS also links to other internal resource strategies such as the Workforce Plan, the Digital Powys Strategy, the Treasury Management Strategy, Asset Management Plans and the Council's Transformation Programme.

Engagement, Scrutiny and Challenge

3.22 In developing the 2020-25 MTFS and 2020-21 budget significant efforts have been made this year to engage Powys citizens, local councillors, partners and the workforce in the budget development process. This included providing more information to the public, pre-engagement on the Council's financial position with various stakeholders and an interactive online budget simulator consultation exercise.

3.23 Nearly 600 responses were received from the budget simulator exercise which challenged participants to prioritise services and target reductions in order to deliver a balanced budget. The findings identified the mean values of all respondents and the budget adjustment acceptable. Schools were selected to have the lowest levels of reduction of just 0.55%, whilst central support services had a much larger figure of 5.83%. Respondents suggested that council tax could be increased above the 5% set as the base, while the mean average suggested a 6% increase would be palatable. A report of the findings is provided at Appendix H and Cabinet and SLT has taken these into account in the development of the draft 2020-21 budget.

3.24 Members of the Council have engaged in the budget planning process from the outset through a series of member budget seminars which have given Councillors the opportunity to review and prioritise Vision 2025 outcomes, challenge, propose ideas and input into 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 and settlement information have been shared with members and the impact on the budget modelled and considered.

3.25 The budget proposal approved by Cabinet on the 21st January 2020 has been scrutinised by each of the Council's three Overview and Scrutiny Committees providing them with the opportunity to consider the implications of the proposed

[2] SLT comprises the Chief Executive Officer, three Corporate Directors and 12 Heads of Service)

budget for the service areas within their remit during the last week in January. The Committees have provided feedback to the Cabinet and this has been considered before proposing the final MTFS and 2020-21 budget and 2020-30 capital programme to full Council today. Cabinet have issued a full response to the points and recommendations made and this is presented with the budget documents.

MTFS Principles

3.26 The MTFS provides a set of clear principles which will drive the Council's budget and spending decisions over 2020-25 and which Members and others can examine and judge the Council's financial performance against. The ten key principles are to ensure that**:**

1. The Council will continue to meet its statutory obligations and to demonstrate how its budget supports the priorities contained in Vision 2025.

2. The Council's financial control system will be sufficiently robust to support the delivery of financial plans and mitigate corporate risks.

3. All Council budgets will be reviewed annually to ensure resource allocations are delivering value money and continue to align to the delivery of priority outcomes in Vision 2025.

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 3% of Net Revenue Expenditure over the period of the MTFS.

7. Capital investment decisions will support the Council's corporate priorities and mitigate any statutory risks taking account of the return on investment and robust business cases.

8. Prudential borrowing will only be used to support the capital programme where it is affordable and sustainable within the Council's overall borrowing limits and the revenue budget over the long term.

9. Decisions on the treatment of surplus assets will be based on an assessment of the potential contribution to the revenue budget and the capital programme.

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

Financial Resource Model

3.27 The MTFS includes a Finance Resource Model (FRM) which provides a financial forecast for the forthcoming five financial years. This is provided at Appendix B. The MTFS sets out a best case, most likely case and worst case scenarios for the

Council's future years' budgets by making a number of assumptions about the level of funding that will be received from Welsh Government and cost drivers such as pay and price inflation and demographic change. All the scenarios include an annual council tax increase of 5%. The FRM is based on the worst-case scenario.

3.28 Table 3 sets out the gap between the Council's net budget requirement and the possible funding available in each of the next five years based on each of the scenarios in the MTFS.

Table 3

Scenario Gap - £k	2021/22	2022/23	2023/24	2024/25	Cumulative
Best	(£6.21m)	(£6.53m)	(£2.69m)	(£3.31m)	(£18.7m)
Most Likely	(£9.89m)	(£13.10m)	(£6.47m)	(£5.27m)	(£34.7m)
Worst	(£13.58m)	(£16.72m)	(£10.01m)	(£8.74m)	(£49.0m)
Cost Reduction Proposed to Reduce the Gap	(£9.02m)	(£6.48m)	(£0.73m)	£ -	(£16.23m)
Revised Worst Case gap	(£4.56m)	(£10.24m)	(£9.27m)	(£8.74m)	(£32.81m)

3.29 Table 3 shows that the Council will need to find recurrent cost reductions of between £18.7 million and £49 million and/or increase council tax by more than 5% per annum over 2021 to 2025 to balance future years' budgets.

Revenue Budget 2020-21

3.30 Taking account of advice from the Wales Audit Office and CIPFA on the Council's financial planning arrangements, the Cabinet and the Senior Leadership Team adopted a new Integrated Business Planning approach to developing the 2020-21 budget and the FRM for 2021-2025. This approach has involved all council services:

- Reviewing comparative performance data
- Identifying any inescapable cost pressures
- Identifying cost reduction opportunities
- Planning service changes to secure delivery of the priority outcomes in the Council's Corporate Improvement Plan Vision 2025 and statutory obligations
- Identifying any workforce implications of service changes

3.31 Cabinet and SLT began the budget planning process for 2020-21 using the worst-case scenario in the approved MTFS (ie a budget gap of £13.1 million on the 2019-20 working budget, assuming a 5% increase in Council Tax). However during the autumn it became clear that the assumption around the level of inescapable pressure on services was not high enough and there was a need to recognise that some 2019-20 savings were undeliverable and risks in Children's Services could not be mitigated in the short term. Despite identifying more than £11 million of cost reduction proposals a significant budget gap remained before the provisional local government settlement was received in December 2019.

2020-21 Net Budget Requirement

3.32 The net budget requirement is the amount of budget the Council requires to fulfil its functions. It is calculated using the previous year's budget as the baseline, adding any inescapable budget pressures and subtracting any budget reduction proposals.

3.33 Table 4 below sets out the proposed draft net budget for 2020-21 (£269.6 million including the Delegated Schools' Budget.

Table 4: 2020-21 Revenue Budget

£'000	2019-20 Forecast Outturn @31/12/19	General Pay and Price Inflation	Grant Changes & Transfers into RSG	2019-20 Undeliverable Savings	Corporate & Service Specific Pressures	Cost Reductions Proposed	2020-21 Draft Budget
Financial Services	4,945	141		123	95	(425)	4,880
Corporate Activities	8,349	51			1,780	(825)	15,820
Corp Legal And Democratic Serv	3,045	67			40	(279)	2,987
Highways Transport Recycling	31,192	607	110	653	1,055	(291)	31,209
Housing & Community Developmen	9,201	291		480	30	(672)	9,069
Prop. Planning & Public Protection	5,798	162		471	105	(464)	6,058
Education (Inc Schools Delegated)	91,424	612		120	6,597	(511)	98,567
Adult Services, Commissioning	64,775	344	120		2,905	(4,070)	63,861
Childrens' Services	25,634	252		1,704	5,681	(2,221)	26,041
Commissioning Social Care	3,270	72					3,509
Workforce & Organisational Dev	1,501	70		200		(183)	1,454
Digital Services	4,718	130			108	(771)	4,430
Transformation & Communication	1,706	34				(85)	1,715
	255,558	**2,833**	**230**	**3,751**	**18,396**	**(10,796)**	**269,600**

3.34 Table 4 shows the Council's 2019-20 working budget and proposed changes across each service to provide a base budget for 2020-21, including

Additional funding as follows:

- £2.83 million for general pay and price inflation, including the proposed Local Government pay award
- £230,000 of specific grants that are transferring into the settlement passed on to services to meet ongoing costs
- £3.75 million for 2019-20 savings which have proven to be undeliverable and known Children's Services risks that materialised in 2019-20. These are funded in 2020-21 to ensure the budget is sustainable and to provide increased assurance that it will be deliverable.
- £18.4 million of inescapable budget pressures including:
    - £406,000 to meet the 5.71% increase in the Mid and West Wales Fire and Rescue Authority annual levy.

- £450,000 for the Council Tax Reduction Scheme (CTRS). At a proposed council tax increase level of 5%, this is included as a pressure to meet the increased levels eligible under the scheme.
- £6.60 million for the Education Service (including the Delegated Schools' Budget): £4.3 million for the additional cost of Teachers Pay and Pensions; £1.4 million to recognise Teaching and Learning Responsibility (TLR) allowances in the schools' formula; £207,000 to support an increase in the Capitation Allowance; together with £693,000 to recognise contract inflation, pupil number changes, and increasing Rates & Utilities costs in schools.
- £5.68 million realigns the Children's services base budget. This ensures that a realistic budget is allocated which supports Powys children who are currently in need and in our care while the service implements a strategy which will safely reduce the number of looked after children, and bring fewer children into the care of the local authority. Over the medium term this will reduce costs whilst continuing to ensure children are safeguarded and achieve best possible outcomes. The budget will also ensure that the service can maintain an appropriate workforce and fund the posts covered by agency staff until the recruitment plan successfully draws permanent staff into these posts. Legal costs and the demand created by legislative changes for care leavers "When I'm ready" can also be accommodated within the revised budget. The intervention and strategies being implemented by the service will begin to reduce costs within 2020-21 and cost reductions of £2.22 million are expected.
- £2.9 million to meet inescapable demand and cost pressures in Adult Social Care.
- £1 million mainly to meet the increased costs in insurance together with other corporate cost pressures.
- £1.05 million for Highways Transport and Recycling - £500,000 new growth in roads' maintenance funding and £505,000 to meet contract inflation and to support the waste to energy initiative, helping the council meet the Welsh Governments' target to reduce landfill.

Reductions in funding as follows:

- £10.79 million of cost reduction proposals, the detail of which is provided at Appendix C, with Impact Assessments on each of the proposals attached at Appendix I.

3.35 Delivery of these cost reductions will be essential to deliver a balanced 2020-21 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, several budget challenge events have been held with officers to challenge and test the deliverability of each proposal. SLT has provided assurance to Cabinet that they can deliver the cost reductions within the required timescales, whilst also reflecting on any risks.

Financing the Net Budget for 2020-21

3.36 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.

3.37 Income from fees and charges makes a significant contribution (£60 million+ per annum) to the Council's budget and the Council's approach to income generation is included in the MTFS. The Income and Cost Improvement Policy forms the framework within which income is reviewed annually.

3.38 The budget for 2020-21 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.

3.39 The financing of the net budget comes from the Welsh Government settlement and Council Tax income. Table 2 summarises the 2020-21 budget requirement and how it will be financed and shows that Council funds 32%of the councils' net budget.

3.40 Table 5 below shows how the budget requirement for 2020-21 will be financed.

Table 5

REVENUE FUNDING	2019/20	2020/21	Change
AEF (RSG & NNDR Allocation)	£ 174.291m	£ 184.289m	£ 9.998m
Council Tax	£ 80.896m	£ 85.311m	£ 4.415m
Total Projected Revenue Funding	**£ 255.187m**	**£ 269.600m**	**£ 14.413m**

3.41 As can be seen the balancing of the Council's 2020-21 budget is dependent upon a 5% increase in the Council Tax in 2020-21, generating £4.27 million. In proposing this increase, consideration has been given to the affordability for Powys residents and the ongoing need to meet increasing demand and inescapable cost pressures on vital local services.

3.42 The report recommends the level of Council Tax to be included in the budget. The setting of Council Tax is not subject to approval as part of this report. On the 4th March full Council meets to set the Council Tax in line with the final budget. This meeting does not reopen the budget but ensures the Council sets Council Tax for billing purposes.

Draft Capital Programme 2020-30

3.43 The Capital and Treasury Management Strategies are fundamental to the effective delivery of the Council's priorities and Vision 2025. 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.

3.44 The Capital Strategy and Treasury Management Strategy which was proposed by Cabinet on the 21st January 2020 has been amended to include the additional capital schemes that are in the process of being approved through the new governance regime. The revenue funding required for these schemes is already reflected in the revenue budget. In addition, we have taken the opportunity to improve the content of the document to make it clearer for the reader.

3.45 The strategy document at Appendix F 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.

3.46 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.

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

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

3.48 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 Vision 2025, Service Improvement Plans, and other corporate strategies, and how they will be managed within the limited capital resources available.
- Challenge our current estate, continue with the programme of asset rationalisation, ensuring that assets retained are effective, efficient and economically sustainable to deliver services.
- Identify and consider options available to fund capital expenditure that minimises the ongoing revenue implications of historic capital expenditure and of any new investments.
- Use partnerships, both public and private, more effectively to support our overall strategy.
- Establish effective arrangements for managing capital schemes including assessment of outcomes and achievement of value for money.

- The aim of this capital strategy is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

3.49 During 2019-20 the Cabinet and EMT has introduced a new Governance Framework 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 Vision 2025. This enables the council to prioritise is capital investment whilst ensuring affordability.

3.50 The Council is moving away from an annual capital cycle and using the new framework will have an ongoing process of projects in development through to approval through Cabinet and Council as needed.

3.51 The Capital Strategy is attached as Appendix F. The strategy sets out the priorities for the next 10 years with the provisional Capital Programme totalling £537 million (including the Housing Revenue Account (HRA)). This is a significant commitment. The Capital Programme is included in Appendix F as part of the Capital Strategy.

3.52 The Council continues to invest in services that underpin the priorities set out as part of Vision 2025 as follows:

<u>We will support our residents and communities:</u>

- Housing - £213 million: The Council will continue to maintain the Welsh Housing Quality Standard achieved in 2018, and over the lifetime of the HRA business plan the service will look to invest in 250 new council dwellings.

- Leisure and Recreation - £2 million: The colocation of libraries with other services continues and self-service technology enables our customers to make increased use of the resources.

- Waste Strategy- £3 million: Powys County Council faces stringent Welsh Government (WG) statutory recycling targets. These are 64% for 2019-20 and 70% for 2024-25. In addition to this there is a target to reduce landfill to 10% by 2019-20 and 5% by 2024-25. This has required a step change in the way all local authorities approach waste and recycling. The continued capital investment in the Waste and Recycling service will ensure that the Council is able to meet the targets whilst obtaining maximum value from the service.

<u>We will lead the way in effective, integrated rural health and care</u>:

- Social Care - £2 million: The capital programme focuses on supporting those who wish to remain in their own home rather than residential care and supports the integrated Health and Care Strategy for Powys. The schemes focus on accommodation options and the use of assistive technology, which has a key role to play in the modernisation of health and social care and offers greater choice to our residents and supports independent living

We will strengthen learning and skills:

- Schools - £142 million: to provide learning environments that meet the aspirations of the WG's 21st Century Schools programme. Alongside this, capital funding through our major repairs programme will be focussed on where the need is greatest, as identified through the Schools Service's Asset Management Plan.

We will develop a vibrant economy:

- Highways and Environment - £88 million: The Council has a statutory duty to maintain the adopted highway, maintained at public expense in a safe condition for the passage of the user. The strategy will see £49 million invested in our Highway network over the next 5 years.

- Regeneration, Economy, Property and Development - £4 million: The Council needs to intervene where the private sector is not able to (for economic reasons) to create or facilitate investment in business units in order to keep and attract business to the County.

- County Farms - £400,000 : Effective management of County Farms estate will enable us to continue to provide the opportunities already enjoyed by current tenant farmers and maintain an income stream. The financial demands of the Estate need to be evaluated against the competing demands across the council whilst noting the estate produces an annual surplus and has made a considerable contribution in capital receipts.

Information Technology:

- £4 million - The service engages with change programmes so that investment and resource meets identified priorities. In respect of infrastructure, Digital Services will invest in up to date cloud-based technologies including 'Azure' cloud technologies, improved telephony and mobile systems, WEB and share-point and improved wireless. In terms of applications Digital Services is looking to rationalise the number of systems through investment in replacement of legacy corporate systems and improved integration between systems notably the WEB and Intranet.

3.53 The Capital Programme also identifies £44 million over the next ten 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. These include initial estimated funding for the Mid Wales Growth Deal and investment in our Digital Powys Programme.

Draft Treasury Management Strategy

3.54 A draft Treasury Management Strategy which is included within the attached Appendix F which 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 2020-21 and details the expected activities of the Treasury function.

3.55 The Treasury Management Strategy and Annual Investment Strategy is recommended to Full Council for approval in February.

Prudential Indicators

3.56 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 F. The tables include the revised estimate for 2019-20, where necessary, as well as the indicators through to 2028-29.

3.57 The key indicator of affordability is the estimate of the ratio of financing costs to net revenue stream, in section 3.22 of the Treasury Management Strategy. The ratio of financing costs for the council fund is 3.72% in 2019-20 rising to 8.22% in 2029-30. The amount of HRA income required to pay for financing increases is 22.48% in 2019-20 rising to 23.71% in 2029-30.

3.58 The capital financing requirement (CFR) is shown at section 2.47 of the Capital Strategy 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 £292 million in 2019-20 and will rise to £418 million by the end of 2028-29, and £94 million increasing to £117 million for HRA debt.

3.59 The operational boundary, in section 3.35 and authorised limits for external debt in section 3.37 both reflect the Treasury Management policy and are set at a level to be affordable and prudent.

3.60 The authorised limit for 2020-21 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 £434 million and the Operational Boundary is set at £404 million.

3.61 The Minimum Revenue Provision (MRP) Policy Statement is included at Section 2.48.

3.62 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.

3.63 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 or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31st March 2019 the total Voluntary Revenue Payments utilised was £8.4 million, with the expected total overpayments being £19.5 million.

Reserves

3.64 The Council's reserves are key to our financial planning; maintaining these at an appropriate level is central to our financial stability. They provide a safeguard against risk, unusual events and future financial pressures.

3.65 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.

3.66 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.

3.67 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.

3.68 The level of reserves held and their forecast use in 2019-20 is reported monthly to Cabinet as part of the budget monitoring report and Table 6 below reports the opening and projected balance of the reserves at year end. This is based on the position as at 31st January 2020.

Table 6

Summary	Opening Balance Surplus / (Deficit) £'000	Forecast Addition / (Use) of Reserves £'000	Forecast (Over) / Under Spend £'000	Projected Balance Surplus/ (Deficit) £'000
General Fund	9,065	(87)	18	8,996
Budget Management Reserve	3,584	0	0	3,584
Specific Reserves	7,909	(832)	(24)	7,053
Transport & Equipment Fund Reserve	6,493	(330)	0	6,163
Sub-Total	**27,051**	**(1,249)**	**(6)**	**25,796**
Schools Delegated Reserves	78	(2,650)	578	(1,994)
School Loans & Other Items	(371)	7	0	(364)
Housing Revenue Account	1,111	2,168	183	3,462
Total	**27,869**	**(1,724)**	**755**	**26,900**

3.69 MTFS Principle 6 is to maintain a minimum general reserve provision of 3% of net revenue expenditure over the period of 2020-25. The projected balance as at 31 March 2020 will be 4.9% in line with this principle.

3.70 The level of reserves held has been assessed alongside the overall budget proposal. Reserves held in the Transport and Equipment Fund, previously set aside to support the Capital Programme, will continue to be used in 2020-21.

3.71 The current and projected financial position of our Schools continues to be a challenge, the additional funding included in the budget plan assists schools in meeting the pressures they face, but it is essential that all Governing Bodies take action to provide a curriculum that can be delivered within the funding provided to

them. The school reserves are ring fenced but ultimately represent a potential council risk. It is essential that compliance work continues to be undertaken to ensure that school budgets are managed in accordance with regulations by Governing Bodies.

3.72 The use of these reserves will continually be reviewed particularly if alternative funding sources become available. The reserves position will be monitored carefully on a monthly basis 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

3.73 There are Impact assessments for each of the service cost reduction proposals, attached at Appendix I. An impact Assessment for the whole 2020-21 revenue budget is also provided at Appendix J.

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 maximum 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 introduction 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 The process has been strengthened further with the development of Integrated Business Plans for each service, these plans capture the services' objectives and highlight their roles and responsibilities in supporting the Council's Vision 2025 Corporate Improvement Plan, along with the intended outcomes for service users and / or residents.

4.5 The 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 thought through. Services assess options for service delivery, workforce and capital requirements, and calculate the budget requirement and the cost reductions that can be achieved whilst assessing the impact and risk associated with them.

4.6 The Council's MTFS guides the development of these plans and the 2020-21 implications are set out in the draft budget and draft 2020-2030 capital programme. A process of challenge and review undertaken with each Head of Service and the Executive Management Team provides assurance on the completeness and

robustness of the estimates, whilst highlighting the risks associated with its deliverability.

4.7 This strategic approach to allocating resources ensures that the budget plan fully considers the delivery of Vision 2025, 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.

4.8 The level of cost reduction required in 2020-21 is again a significant challenge. When this is coupled with the need for improvement and the identification of further potential pressure in some services a prudent approach must continue to be adopted to support financial stability. Against that background, the draft budget includes a risk management allocation and the removal of prior years' unachievable savings from the 2020-21 budget adds resilience and robustness to our budget plan.

4.9 A series of documents and policies constitute the budget framework including the Reserve Policy. This has been set in consideration of several key factors such as the strengthened approach to risk management. The level of general reserves is appropriate to deal with unknown risks and is consistent with the levels held by other councils. Even so, the position going forward will require reserves to be maintained at a prudent level. It is evident that, given future pressure and the need to deliver savings, the levels proposed in the budget and MTFS should not be reduced.

4.10 The current and projected financial position of our Schools continues to be a challenge. The additional funding included in the budget plan assists schools in meeting the inescapable pressures they face, but it is essential that all Governing Bodies take action to provide a curriculum that can be delivered within the funding provided to them. The school reserves are ring fenced but, ultimately, represent a potential council risk. It is essential that compliance work is undertaken to ensure that school budgets are managed in accordance with regulations by Governing Bodies.

4.11 The Council has well established budget monitoring and internal control arrangements and these act as an effective early warning system in identifying potential problems and for managing potential areas of risk. This ongoing regular review highlights problems and risks early so that corrective action can be put in place and this is supported by a clear virement process which provides some flexibility to adapt expenditure patterns to meet changing needs and objectives.

4.12 The Local Government Revenue Settlement for 2020-21 provides Powys with an increased level of funding not seen in over a decade. But there is no indication that this level of funding will continue beyond one year, the level of uncertainty at a UK level remains.

4.13 The Council's budget continues to be set within this uncertainty. We continue to face significant pressures to manage the increasing demand for services whilst driving improvement across Social Care and Education. The proposed increase in council tax will help mitigate the position but the Council must seek other opportunities to identify alternative sources of funding.

4.14 Taking all the above into account, the Section 151 Officer concludes the estimates used in the budget proposal for 2020-21 are adequately robust but significant risk remains. Based on the assessment of reserves the overall level is adequate but remains at the lower end of acceptability given the scale of savings required over the medium term.

5. Legal Implications

5.1 The Solicitor to the Council (Monitoring Officer) has commented as follows:

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

Recommendation:	**Reason for Recommendation:**
1. That the MTFS for 2020-2025 as set out in Appendix A to the report be agreed in principle.	**To aid business planning and development of the budget over a three-year period**
2. That the Revenue Budget for 2020-2021 with the inclusion of a 5% increase in Council Tax shown in the Financial Resource Model in Appendix B and Table 4 of this report is approved.	**Statutory Requirement**
3. That the Fees and Charges proposed within the Fees and Charges Register are approved (Appendices D and E)	**To comply with Powys County Council Income Policy**
4. The proposed Capital Strategy and Capital Programme for 2020-30 shown in Appendix F is approved.	**Statutory Requirement**
5. The Minimum Revenue Provision Statement as set out on Appendix F is approved.	**Statutory Requirement**

6. The Treasury Management Strategy and the Annual Investment Strategy in Appendix F is approved.	**Statutory Requirement**
7. The Authorised borrowing limit for 2020-21 as required under section 3(1) of the Local Government Act 2003 be approved at £434 million as set out in section 3.60 of this report.	**Statutory Requirement**
8. The Prudential Indicators for 2020-21 are approved as set out in section 3.56 to 3.58 of the report and Appendix F.	**Statutory Requirement**

Relevant Policy (ies):			
Within Policy:	**Y**	**Within Budget:**	**Y**

Relevant Local Member(s):	

Person(s) To Implement Decision:	**Chief Executive**
Date by When Decision to Be Implemented:	**1st April 2020**

Contact Officer Name:	Tel:	Email:
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Background Papers used to prepare Report:

Welsh Government Provisional Settlement
WLGA Briefing Welsh Government Draft Budget and Provisional LGF Settlement 2020-21
Office for Budget Responsibility Economic and Fiscal Outlook March 2019
Analysis of the Welsh Government Draft Budget 2020-21: Wales Fiscal Analysis "Austerity is over – for now" December 2019

List of Documents

Appendix A Medium Term Financial Strategy
Appendix B Financial Resource Model
Appendix C Cost Reductions Proposals
Appendix D Income Guidance Note
Appendix E Fees and Charges Register
Appendix F Capital & Treasury Management Strategy
Appendix G Reserves Policy
Appendix H Budget Consultation Report
Appendix I Impact Assessments
Appendix J Net Revenue Budget 2020-21 Impact Assessment